

# UK Poverty 2018

A comprehensive analysis of poverty trends and figures



Report by the JRF Analysis Unit

**JRF** JOSEPH  
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# Contents

Acknowledgements	2
Executive summary	3
Overview of poverty trends	10
Child poverty	21
Workers in poverty	32
Pensioner poverty	38
Impact of poverty	43
Conclusion	49
Notes	51
References	52

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All views and any errors contained in this report are the responsibility of the authors.

# Executive summary

## What you need to know

- Nearly half of children in lone parent families live in poverty, compared with one in four of those in couple families. Over the last five years, poverty rates for children in lone-parent families have risen by around twice as much as those for children in couple families.
- Four million workers live in poverty, a rise of over half a million over five years. In-work poverty has been rising even faster than employment, driven almost entirely by increasing poverty among working parents.
- As a country we achieved very significant falls in poverty in the early 2000s, especially among pensioners and children. The analysis in this report demonstrates the potential to reduce poverty once again by taking action to reduce housing costs for renters, strengthen the support offered by the social security system and open up opportunities for better-paid employment.

More than one in five of our population (22%) are in poverty in our country – 14.3 million people. Of these, 8.2 million are working-age adults, 4.1 million are children and 1.9 million are pensioners. Eight million live in families where at least one person is in work.

One-and-a-half million people were living in destitution in the UK at some point during 2017, including 365,000 children. Table 1 shows numbers and rates for different groups in 2016/17.

Overall, 7% of people in the UK are in persistent poverty – 4.6 million people. The highest rate of persistent poverty is among lone parent families (24%), followed by single men without children (12%).

The UK has shown that we can reduce poverty among those who have been most at risk – pensioners and children. This was achieved through a combination of rising employment, tax credits and help with housing costs. However, this progress has begun to unravel; poverty rates are rising, especially among children, due to weakening support through benefits and tax credits, low pay and rising housing costs with less help in meeting them. It is also striking that the poverty rate among working-age adults without children (who have not been a focus of concerted action to reduce poverty) did not change between 1994/5 and 2004/5, and then rose until 2011/12 before falling somewhat to 2014/15.

## Child poverty

Child poverty has been rising since 2011/12. In the UK 4.1 million children now live in poverty, a rise of 500,000 in the last five years. This is much faster than we would expect based on population growth: the total number of children has risen by 3%, while the number of children in poverty has risen by 15%.

Virtually all this rise in child poverty has taken place within working families. In the last five years, poverty rates have been rising for all types of working families – whether they are lone-parent or couple families and regardless of the number of adults in work or whether they are part-time or full-time workers. This is the first period in the last two decades when this has happened. It is striking that the rise has been driven by the risk of poverty

rising for children in all types of working families, not by changes to how many children live in couple or lone-parent families, or by changes in the numbers of children in families with different numbers of workers or amounts of work.

While the proportion of children living in workless families has fallen steadily, the risk of poverty for those who are still in families where no one is in work has increased very significantly. In 1996/7, 83% of children in workless families lived in poverty. By 2012/13, the risk of poverty for those children had reduced to 63%; still high but a considerable improvement. However, since then the risk has grown again, with 73% of children in workless families now living in poverty.

The growing crisis in the UK's housing market has created especially stark problems for low-income families with children. Housing costs have grown much faster for these families than for those who are better off. This has been driven by rising costs for renters and the rapid increase in the number of families renting privately due to a lack of social rented housing and the high costs of buying a home. The proportion of children in the bottom quintile living in the private rented sector rose from 17% in 2005/6 to 37% in 2016/17. At the same time, Housing Benefit has been weakened, leaving many families with less protection. Since the mid-90s, the proportion of single-parent households who are claiming full Housing Benefit and who have to use other income to help pay their rent has more than doubled – from 17% to 43%. Over the same period, the number of couple family households with children receiving Housing Benefit and who have to use other income to top it up has also more than doubled – from 15% to 37%.

## The lone-parent penalty

Nearly half of children in lone-parent families live in poverty (49%) compared with one in four of those in couple families (25%). This disparity has increased over the last five years; poverty rates for children in lone-parent families have risen by around twice as much as those for children in couple families. Lone parents are also twice as likely to live in persistent poverty as any other group. This is particularly worrying because living in poverty for long periods of time is more damaging than experiencing short periods of low income (ONS, 2017).

Higher poverty among lone parents is driven by their disproportionate concentration in low-paid work, the high cost of housing (due to needing the same size home as couple parents) and cuts to benefits and tax credits.

Just over half of working lone parents are low paid, compared with only 37% of second earners in couples and 21% of main earners in couples. Lone parents are more concentrated in many sectors with high levels of low pay, and they are more likely to be low paid in those industries than either mothers or fathers in couples. This has led to average pay for lone parents falling increasingly behind pay for main and second earners in couples. The pay gap between lone parents and the second earner in couples is now £2.14 an hour, having been £0.31 in 2001/02. The pay gap between lone parents and the main earner in couples has increased from £3.59 to £5.86 an hour over the same period.

## Workers in poverty

In-work poverty is higher than at any time in the last 20 years. The employment rate is at a record high, but this has not delivered lower poverty. The rate of poverty among workers has been rising for five years, having already risen significantly over the previous decade. Since 2004/05, the number of workers in poverty has increased at a faster rate than the total number of people in employment. This has resulted in workers being increasingly likely to find themselves in poverty. There are now almost 4 million workers in poverty in the UK, a rise of over half a million compared with five years ago.

The rise in in-work poverty over the last five years has been driven almost entirely by the increase in the poverty rate of working parents. A working parent is over one-and-a-half times more likely to be in poverty than a working non-parent.

Workers in four types of industry have particularly high rates of poverty: accommodation and food services (25%); agriculture, forestry and fishing (23%); administrative and support services (22%); and wholesale and retail (18%). This compares with a poverty rate for workers overall of 13%.

## Pensioners in poverty

One in six pensioners currently live in poverty. This is a considerable improvement compared with the situation two decades ago, when nearly a third lived in poverty. That rate more than halved, falling to 13% in 2012/13, before rising again to 16% in 2015/16 and staying at that level in 2016/17. However, there are underlying trends in housing and pension savings that suggest it may rise again in the future unless action is taken.

The recent rise in pensioner poverty has been primarily driven by increases in poverty among pensioners who rent. Poverty among pensioners in the private rented sector is now 36% (up from 27% in 2007/08). For social renters, poverty has risen from 20% to 31% since 2012/13. Eligible rent – the amount that Housing Benefit will cover – has been falling behind actual rents paid by low-income pensioners due to changes in the rules governing eligible rents since 2010/11. These changes have consequently undermined the safety net provided by Housing Benefit. Poverty rates among pensioners who own their own home are low and have changed very little over the last decade.

Of the 330,000 additional pensioners in poverty since 2012/13, 60,000 are private renters and 130,000 are social renters. Over half of the increase in the number of pensioners in poverty came from the rental sector, despite only one in five pensioners renting their own home. This trend looks set to continue as not only are fewer working-age people able to buy their own homes than was the case in previous generations, but housing costs are higher for renters. For the poorest pensioners, the weekly cost in 2016/17 was £50 for those paying a mortgage, £81 for those private renting and £90 for those social renting.

Over the last two decades, there has been a big increase in the proportion of people retiring with a private pension and in the amount of income that successive cohorts of pensioners receive from occupational pensions. However, this has not been the case to the same degree among those on low incomes compared with those who are better off. Most of the benefits of the widening coverage of private pensions went to better-off pensioner families who already had another adult receiving income from a private pension. This also means that pensioners in the poorest fifth are still receiving far less from their private pension than the average.

## The impact of poverty

Living in poverty affects every aspect of people's lives and contributes to those on lower incomes experiencing poorer physical health and being more likely to have mental health issues. Over a quarter of working-age people in the poorest fifth of the population experience depression or anxiety. The pressures of living in poverty cause considerable stress, which is often linked to poorer mental health as well as strained relationships within families. The long-term effects of poverty culminate in people in deprived areas having significantly lower life expectancy than those in better-off places.

In addition to having lower incomes week to week, people in poverty are also much less likely to be able to build up savings to help cover unexpected expenses, invest in improvements to their homes or access opportunities. One in three of those in the

poorest fifth have no savings at all. People on low incomes are also more likely to get into problem debt through falling behind with bills and credit payments. One in six people in the poorest fifth of the population report that they are in problem debt, most commonly falling behind with Council Tax payments, rent or utility bills.

## Conclusion

As a country, we have shown decisively that we can choose to help people escape poverty. Under successive governments, the social security system has been redesigned to provide more support for low-income pensioners and families with children, as well as to boost employment. At the same time, labour market reforms such as the National Minimum Wage have significantly reduced extreme low pay. Changes to the housing market enabled more people to buy homes and the combination of low-cost socially rented housing and Housing Benefit contained the impacts of rising housing costs for those on low incomes.

However, we are currently seeing much of the progress on reducing poverty unravel. Rising employment alone is not delivering lower poverty. Rather, in-work poverty is increasing faster than employment. Many workers are caught in the middle of a series of moving currents; stuck in low-paid work, with little chance of progression, subject to high housing costs and using a weakening social security system. It is these factors combined that are driving an unprecedented rising tide in poverty among working parents. And little attention has been focused on reducing poverty for working-age adults without children, with rates rising from 2004/5 until 2011/12.

Our report shows the urgency of taking action to halt the rise in poverty among workers and their families as well as among children in workless families. It also points towards the range of ways that we can choose to do this, building on past successes in reducing poverty. Unlocking access to better-paid work, enabling more families to live in low-cost rented homes and strengthening support through the social security system are all strategies which have been shown to reduce poverty. Our analysis demonstrates the importance of acting now to halt the rise of child poverty.

**Table 1: Overview of the number of people in poverty and the poverty rates for different groups 2016/17**

<b>Group</b>	<b>Number in poverty</b>	<b>Poverty rate</b>
People in poverty	14,300,000	22%
People in persistent poverty (2015)	4,600,000	7%
Children in poverty	4,100,000	30%
Working-age adults in poverty	8,200,000	21%
Pensioners in poverty	1,900,000	16%
Disabled people in poverty (using the after disability benefits measure)	4,300,000	31%
People in families in poverty that include a disabled adult or child	6,600,000	30%
People in families in poverty that do not include a disabled adult or child	8,000,000	19%
Single pensioners in poverty	1,000,000	22%
Couple pensioners in poverty	900,000	12%
Single working-age adults in poverty with no children	3,000,000	26%
Working-age adults in a couple in poverty with no children	1,700,000	13%
Working-age lone parents in poverty	900,000	46%
Children in poverty in lone-parent families	1,500,000	49%
Working-age parents in poverty in couple families	2,700,000	22%
Children in poverty in couple families	2,600,000	25%
Working-age adults and children in poverty in workless households	4,000,000	64%
Working-age adults in poverty in workless households	2,700,000	60%
Children in poverty in workless households	1,300,000	75%
Working-age adults and children in poverty in working households	8,300,000	18%
Working-age adults in poverty in working households	5,500,000	16%
Children in poverty in working households	2,900,000	24%
Working-age adults in poverty in couple families where both adults work full-time*	500,000	5%
Children in poverty in couple families where both adults work full-time*	300,000	8%



Group	Number in poverty	Poverty rate
Working-age adults in poverty in couple families with one full-time worker*	1,500,000	31%
Children in poverty in couple families with one full-time worker	1,000,000	38%
Working-age adults in poverty in couple families with one full-time and one part-time worker*	700,000	11%
Children in poverty in couple families with one full-time and one part-time worker*	500,000	15%
Working-age adults in poverty in couple families with two part-time workers	100,000	23%
Children in poverty in couple families with two part-time workers	100,000	36%
Working-age adults in poverty in couple families with one part-time worker	500,000	47%
Children in poverty in couple families with one part-time worker	300,000	74%
Lone parents working full-time in poverty*	100,000	22%
Children in poverty in full-time working lone-parent families*	200,000	23%
Lone parents working part-time in poverty	200,000	38%
Children in poverty in part-time working lone-parent families	400,000	38%
Children in poverty in families with one child	900,000	25%
Children in poverty in families with two children	1,600,000	26%
Children in poverty in families with three children	1,000,000	39%
Children in poverty in families with four or more children	600,000	48%
Children in poverty in families where the youngest child is under three	1,600,000	37%
Children in poverty in families where the youngest child is aged three or four	600,000	30%
Children in poverty in families where the youngest child is aged between five and 10	1,200,000	26%
Children in poverty in families where the youngest child is older than 10	900,000	27%
Workers in poverty	4,000,000	13%
Full-time workers in poverty	2,600,000	11%
Part-time workers in poverty**	1,500,000	20%

Group	Number in poverty	Poverty rate
Employee workers in poverty	3,100,000	12%
Self-employed workers in poverty	1,000,000	23%

Source: Households Below Average Income (HBAI) and Family Resources Survey (FRS) 2016/17 (JRF analysis) except figures for persistent poverty which are taken from *Persistent poverty in the UK and EU: 2015*, Office of National Statistics, available at: [www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/persistentpovertyintheukandeu/2015](http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/persistentpovertyintheukandeu/2015)

Note:

\*These groups include full-time employees and full-time self-employed workers. Last year's equivalent table only included groups with full-time employees. The inclusion of the status of partners of full-time self-employed workers is possible by using FRS person-level data merged with HBAI family data.

\*\*The respondent regards themselves as working part-time, either as an employee or self-employed.

Subtotals may not sum to totals due to rounding.

# Overview of poverty trends

This chapter gives an overview of poverty trends in the UK over the last 20 years. It describes the way in which poverty has changed among children, working-age adults and pensioners. As well as detailing the poverty lines for different groups, both with and without dependent children, the chapter also looks at poverty in relation to disability and ethnicity, before looking at both persistent poverty and destitution.

Introduction

**11**

What are the poverty lines for different households?

**11**

What are the main headline trends over time?

**12**

England, Wales, Scotland and Northern Ireland

**14**

Disability

**17**

Ethnicity

**18**

Persistent poverty

**19**

Destitution

**20**

# Overview of poverty trends

## Introduction

Fourteen million people are in poverty in the UK – that is over one in five of the population (22%). Eight million of these people live in families where at least one person is in work. Eight million working-age adults, four million children and two million pensioners are living in poverty. In 2017 one-and-a-half million people lived in destitution in the UK, which means they could not afford to have what we all need to eat, stay warm and dry, and keep clean. And 365,000 of those destitute were children (Fitzpatrick et al, 2018).

In the two year period 2015–2016, 9.7% of the UK population were experiencing persistent poverty.<sup>3</sup> During the last 20 years, the UK dramatically reduced poverty among people who had traditionally been most at risk – pensioners and children. This progress has begun to unravel and now poverty overall is rising, and it is the rise in child poverty that is pushing this trend.

## What are the poverty lines for different households?

The poverty indicator used throughout this report is when a family has an income of less than 60% of median income for their family type, after housing costs (AHC). The most recent poverty lines for four illustrative family types are shown in Table 2.

It is important to note that these represent the total net income for each family type – earnings from employment, profit or loss from self-employment, state support (including benefits, tax credits and state pensions) and any other source of income. They are also after income tax, National Insurance and Council Tax payments, as well as contributions to occupational pension schemes, maintenance payments and student loan repayments. These income levels are measured after housing costs – rent (before any Housing Benefit), water rates, community water charges and council water charges, mortgage interest payments, structural insurance premiums (for owner-occupiers) and ground rent and service charges.

Many families on low incomes receive all or part of their income from sources other than employment, therefore their earnings from employment may be considerably less than these income threshold levels.

**Table 2: Poverty line for households, equivalised, net disposable income**

Family type	£ per week
Couple with no children	255
Single with no children	148
Couple with two children aged five and 14	413
Single with two children aged five and 14	306

Source: Households Below Average Income 2016/17, table 2.2db, [www.gov.uk/government/statistics/households-below-average-income-199495-to-201516](http://www.gov.uk/government/statistics/households-below-average-income-199495-to-201516).

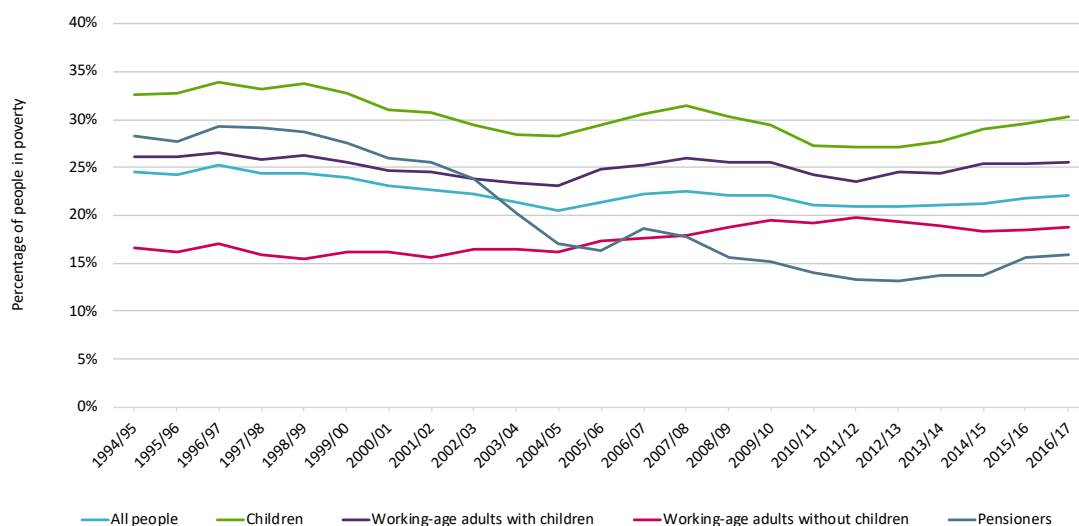
## What are the main headline trends over time?

Twenty years ago, nearly one in four people in this country lived in the grip of poverty. By 2004/05, this had fallen to one in five (20%). From 2010/11, the proportion had risen to 22% in 2016/17. However, the overall trend masks large variations in the fortunes of different groups.

As a country we have succeeded in reducing poverty significantly during the last 20 years among the groups who have traditionally been at most risk – pensioners and children. While the pensioner poverty rate has fallen substantially, particularly from 1997/98 to 2005/06, the poverty rate for working-age adults without children has fluctuated between 16% and 20%. For working-age adults with children, the poverty rate has been edging up since 2004/05 after gently declining in the previous 10 years, and now stands at 26%.

Poverty rates are consistently highest among children and their parents. Twenty years ago, a third of children lived in poverty. This fell to 28% in 2004/05 then to its lowest level of 27% in 2011/12. Since then child poverty has been rising, reaching 30% in 2016/17.

### UK poverty rates: overall



Source: Households Below Average Income

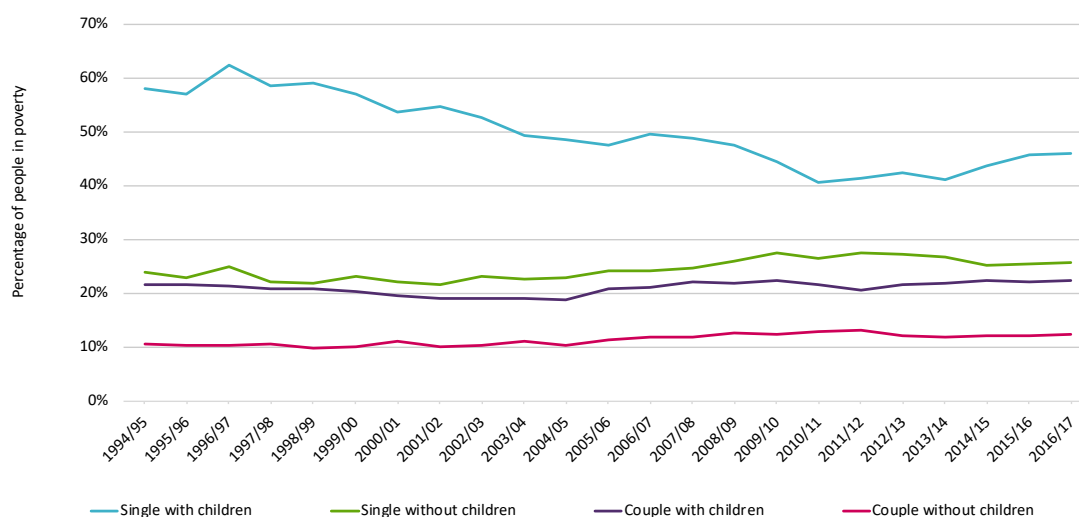
During the last 20 years there have been very significant reductions in poverty among working-age lone-parent families. In 1994/95, 58% of lone parents lived in poverty, rising to 62% in 1996/97. Their poverty rate then fell to a low of 41% in 2010/11 before rising again to 46% in 2016/17.

Poverty rates among couples without children have always been low and have changed very little, with around one in ten in poverty throughout the last 20 years. Levels of poverty among single people without children have also been fairly steady – around 25% were in poverty in 1994/95, rising to 28% in 2009/10 and falling back to 26% by 2016/17.

Two factors drove the falls in poverty among families with children. First, successive governments chose to increase support for these families through the benefit and tax credit system. Benefits for out-of-work families not only kept up with prices, between 2000 and 2013 they rose in comparison with average incomes. The introduction of tax credits meant that those in work but with low earnings were also supported. These decisions meant that these families saw their living standards move closer to that of the rest of the population and were protected from the worst effects of the 2008–09 recession. Second, there were big reductions in worklessness and rises in employment.

Since 2013, these reductions in poverty among families with children have gone into reverse. Their poverty rates are rising, largely due to reductions in the support offered by benefits and tax credits. Reduction in income tax and rise in minimum wage are beneficial for some, but for many low-income families, the gains are far outweighed by reductions in the more targeted support given by the benefit and tax credit system. By contrast, poverty among working-age adults has not been the focus of targeted support to reduce poverty. The poverty rate was lowest among this group 20 years ago, but rose somewhat between 2004/5 to 2011/12, before falling slightly to 2014/15. Since 2008/09, poverty has been lower among pensioners than among working-age adults without children.

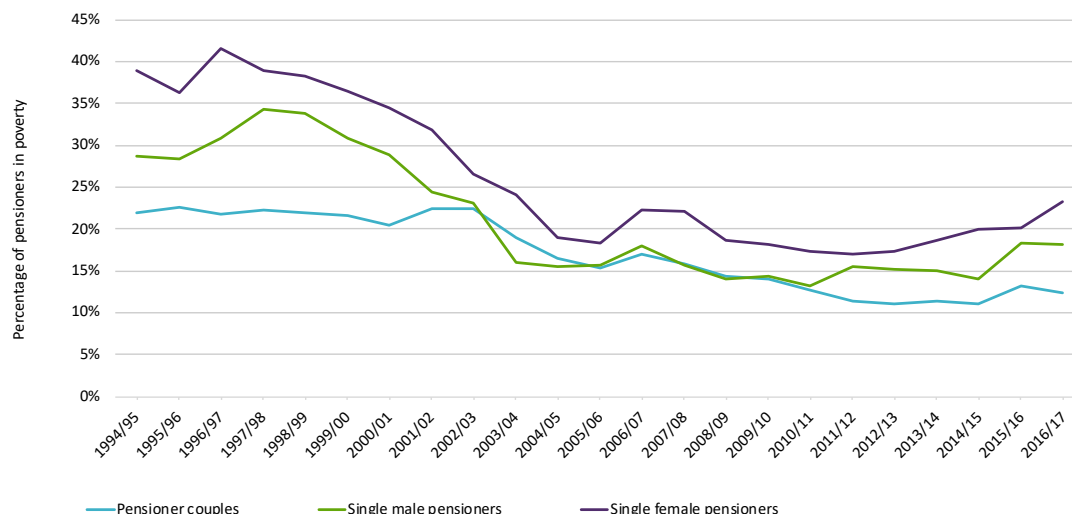
### Working-age poverty rates: by family type



For the most part of 20 years, pensioner poverty decreased across the UK, but now those who are single, from ethnic minority backgrounds and/or rent rather than own their home, are seeing increases. In 1994/95, pensioners had a higher rate of poverty in the UK than working adults (both with and without children) and a lower rate than children. By 2011/12, pensioner poverty had fallen to only 13%, driven mainly by improvements in the single pensioner poverty rates. More recently, however, pensioner poverty has started to increase again, reaching 16% in 2016/17. Single pensioners are more likely to have been in poverty than pensioner couples over the last 20 years. Of these single pensioners, it is women that have fared the worst and have had a higher poverty rate than single male pensioners and pensioners in couples for the entire 20 years. In 1996/97, 42% of single female pensioners were in poverty while the high point for single male pensioner poverty was 34% in 1997/98.

Since 2010/11, the gap between single and couple pensioners has started widening once again, with increases in poverty among single pensioners accounting for most of the growth in pensioner poverty in the three years to 2015/16. In total there are 330,000 more pensioners in poverty in 2016/17 than there were in 2012/13.

### Pensioner poverty rates: by family type

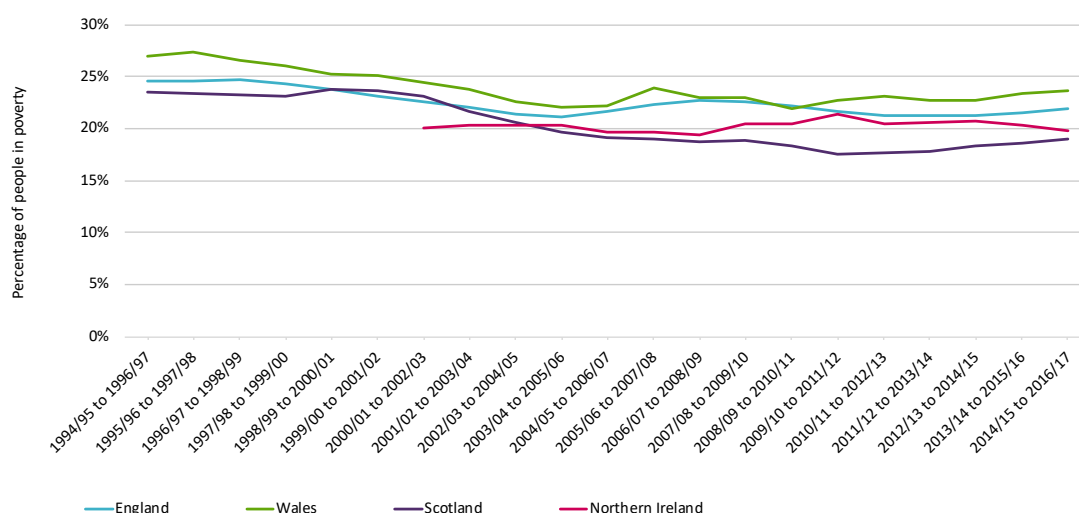


## England, Wales, Scotland and Northern Ireland

The poverty rate in England has generally been higher than for Scotland and lower than for Wales for last 20 years. After starting to decline around 10 years ago, it has started to rise again, to 22%. Of the four countries of the UK, Wales has consistently had the highest poverty rate for the past 20 years (similar to the North East of England), currently 24%. Scotland has generally had the lowest poverty over the last 10 years but has seen a slightly different pattern to the rest of the UK. Data is only available for Northern Ireland since 2002/03–2004/05, when it had a slightly lower rate of poverty than Wales, Scotland and England. Between 2013/14 and 2015/16, the poverty rate in Northern Ireland went down to 20%.

JRF has published poverty reports in 2018 covering Wales, Scotland and Northern Ireland (Barnard, 2018a; Congreve and McCormick, 2018; Barnard, 2018b). The sections below highlight some of the key findings from each of these reports. For any other breakdowns, see the relevant reports.

## Poverty rates: by England, Wales, Scotland and Northern Ireland



Source: Households Below Average Income

## Wales

Over the last 20 years the poverty rate for Wales has generally been higher than in England, Scotland and Northern Ireland, and it is higher now.

Poverty among pensioners has fallen, but by less than in England, Scotland and Northern Ireland. In 1994/97<sup>1</sup> pensioner poverty, after housing costs, was lower than in England and Scotland; by 2013/16 it was higher. Poverty among couples with children, however, has been rising since 2003/06.

There has been good progress in Wales on three important drivers of working-age poverty: worklessness has fallen, employment rates have risen and adult skills have improved. However, this has not delivered lower poverty and the risk of poverty has increased for working and workless households. The drivers of rising poverty across the country are reductions to working-age benefits, rising living costs (particularly for housing) and poor quality work. 39% of disabled people are in poverty compared with 22% of non-disabled people. The poverty rate for disabled people in Wales is the highest in the UK. The majority of those in the poorest fifth in Wales are not building up a pension, increasing their risk of future poverty (Barnard, 2018a).

## Scotland

Barriers to the labour market due to disability, ill health and childcare responsibilities remain prevalent characteristics of child poverty, despite improvements over the last two decades. However, on average, the majority of children in poverty do have at least one adult in work and in many cases parents are working all the hours expected of them by the social security system.

Over the past 20 years, child poverty in Scotland has seen many changes. A supportive policy environment in the late 1990s/early 2000s led to many families moving out of poverty. There are also other issues increasing the pressures on low-income families, including low pay and limited working hours, rising prices and lower employment rates for some groups. Most children in poverty are in working families, but some parents, including those with young children and parents with health conditions and/or disabilities, can face large barriers to work.



In 2017, the Scottish Parliament passed the Child Poverty (Scotland) Act, which set out four statutory targets for child poverty (Congreve and McCormick, 2018).

- **Relative poverty:** children living in households with income below 60% of the UK median after housing costs – a measure of low-income children's living standards compared with the rest of the population. Target: 10% by 2030.
- **Absolute poverty:** children living in households with income below 60% of the 2010/11 median – a measure of low-income children's living standards compared with living standards fixed in 2010/11. Target: 5% by 2030.
- **Low income and material deprivation:** children living in households with income below 70% of the median and without access to a number of goods or services – a measure of whether low-income children can fulfil their basic needs. Target: 5% by 2030.
- **Persistent poverty:** children who have been living in relative poverty in three out of the last four years – a measure of the number of children who have been in poverty for a prolonged period. Target: 5% by 2030.

## Northern Ireland

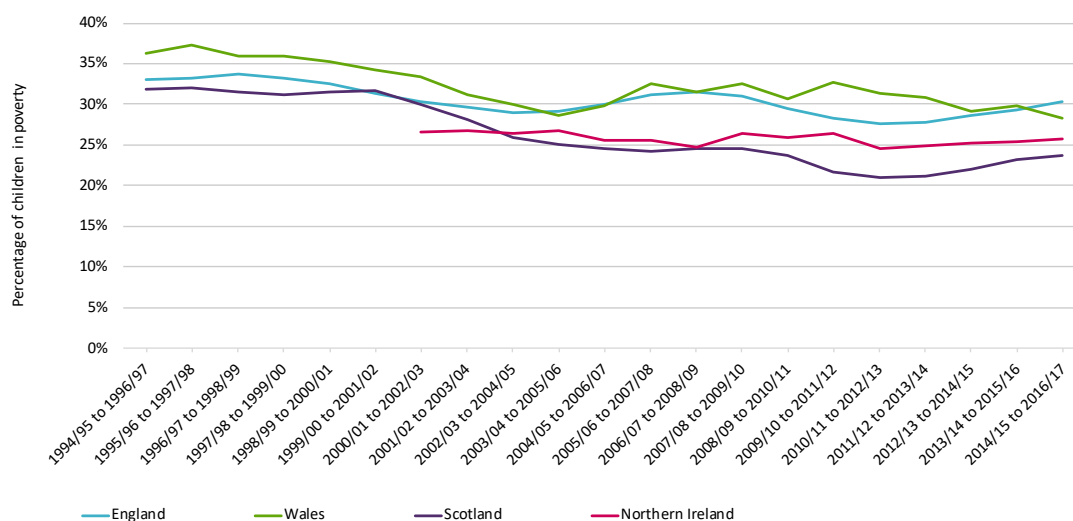
Poverty in Northern Ireland is slightly lower than in England or Wales, but is higher than in Scotland.

Poverty among pensioners has fallen considerably over the last decade. Families with children have seen steady or falling poverty rates, but working-age adults without children are now at higher risk of poverty than 10 years ago.

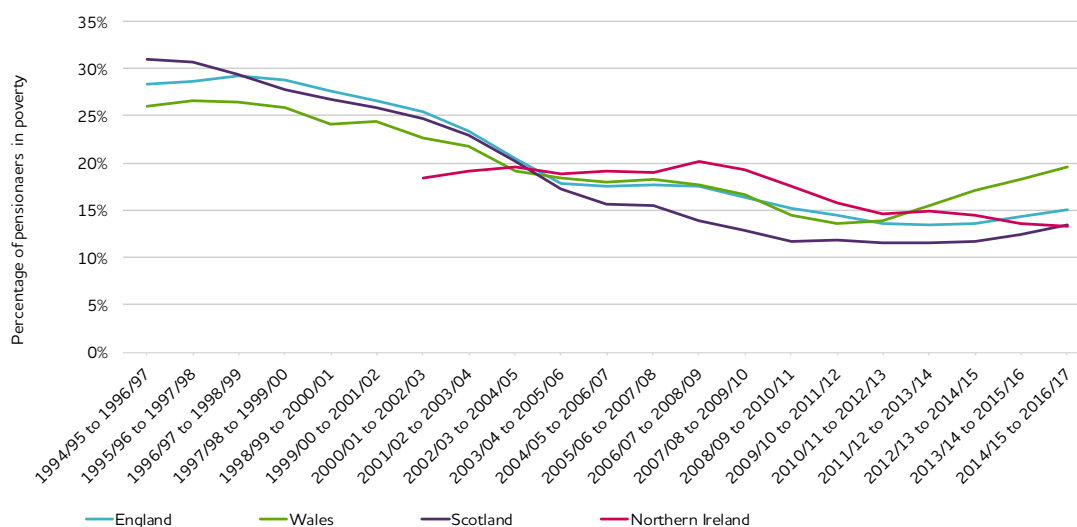
Northern Ireland has higher worklessness and lower employment than elsewhere, and the proportion of people in poverty in workless households has increased slightly over time, in contrast with the UK as a whole. This suggests that the employment rate continues to be a major factor affecting poverty rates in Northern Ireland, and that raising the employment rate could lead to falls in poverty.

One in ten households in the poorest fifth in Northern Ireland faces problem debt. Nearly two-thirds of people in the poorest fifth are not paying into a pension, increasing their risk of future poverty (Barnard, 2018b).

### Child poverty rates: by England, Wales, Scotland and Northern Ireland



## Pensioner poverty rates: by England, Wales, Scotland and Northern Ireland



Source: Households Below Average Income

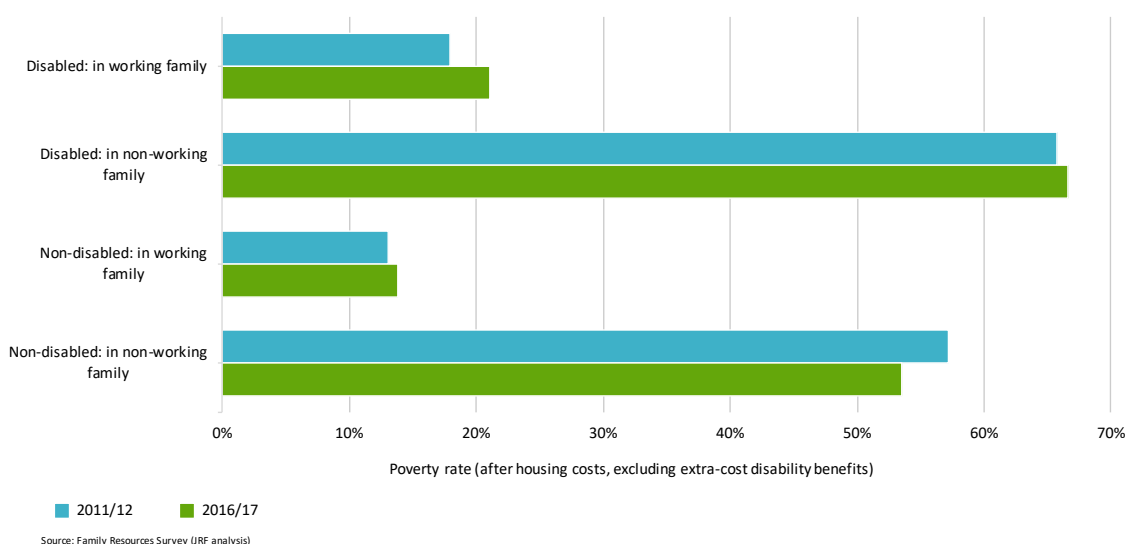
## Disability

Disabled adults in working-age families are much more likely to be in poverty than those who are not disabled – 39% compared with 18%. This rate has fluctuated over the years and is 4 percentage points higher than 20 years ago. There are variations in poverty rates for disabled and non-disabled adults depending on whether they live in working or non-working households.

Over the last five years, the poverty rate for disabled adults has risen, whether they live in a working or a workless family. For disabled adults in working families, the poverty rate rose from 18% to 21% between 2011/12 and 2016/17. The poverty rate for disabled adults in non-working families is very high at 67%, and it also rose very slightly over that period.

For non-disabled adults, the poverty rate for those in working families is much lower than is the case for disabled adults, and has also risen very slightly, to 14% in 2016/17. Over half of non-disabled adults living in non-working households live in poverty. This is a high proportion, but lower than the rate for disabled adults in non-working families, and it has fallen somewhat since 2011/12.

## Working-age poverty rate: by disability status



Source: Family Resources Survey (JRF analysis)

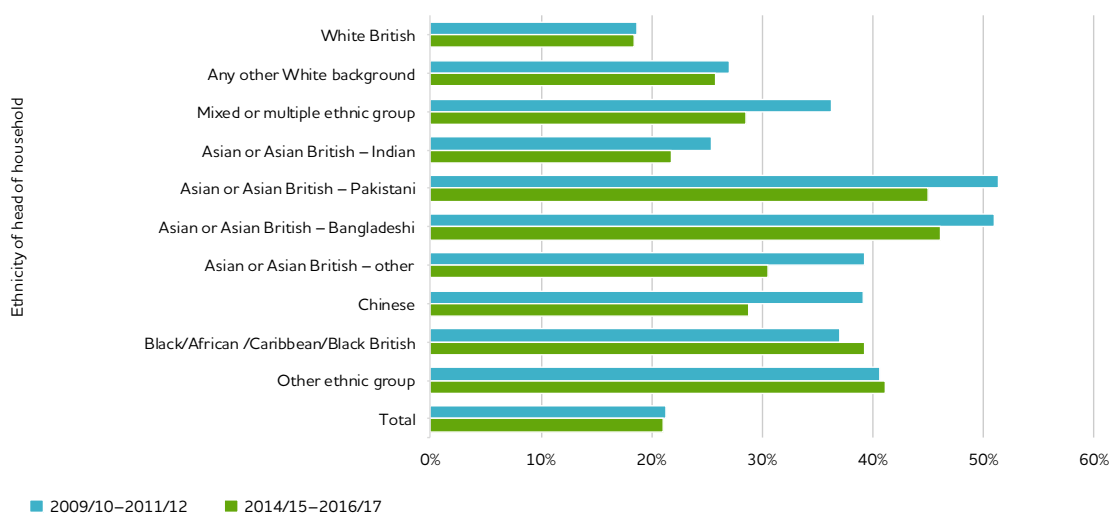
## Ethnicity

Bangladeshi and Pakistani families have experienced much greater rates of poverty than all other ethnic groups and this has been the case for 20 years. Poverty rates are higher among all ethnic minority groups compared with those among the majority White British population. However, the differences between the poverty rates for different groups have narrowed over time.

Working-age adults living in Bangladeshi households<sup>2</sup> are more likely to be living in poverty than all other ethnic groups. However, over the last 20 years the gap has narrowed considerably between the poverty rates of adults in Bangladeshi or Pakistani households, and the much lower rates of adults living in White households or Indian households (White and Indian households being the least likely to experience poverty). In 1996/97–1998/99<sup>1</sup>, 71% of working-age adults in Bangladeshi households were in poverty compared with 27% of adults in Indian households and 18% in White households. In 2014/15–2016/17 (20 years later) 46% of adults were in poverty in Bangladeshi households, 22% in Indian households and 19% in White households. This shows the contrast of the decrease in the poverty rate of Bangladeshi households over time and how the poverty rate for working-age adults in White households has been steady over the last two decades.

Looking at the last five years (2009/10–2011/12 to 2014/15–2016/17)<sup>1</sup> working-age poverty rates for almost all ethnic groups have dropped over this time, from a small amount (among the White British group) to much larger drops for mixed ethnicity, Pakistani, Bangladeshi, Other Asian/Asian British and Chinese ethnic groups. The two groups that have become more at risk of being in poverty now than five years ago are Black/African/Caribbean/Black British working-age adults and those who marked 'other' as their ethnicity. In terms of numbers 120,000 more Black/African/Caribbean/Black British adults were in poverty than five years earlier.

### Working-age poverty rates: by ethnicity

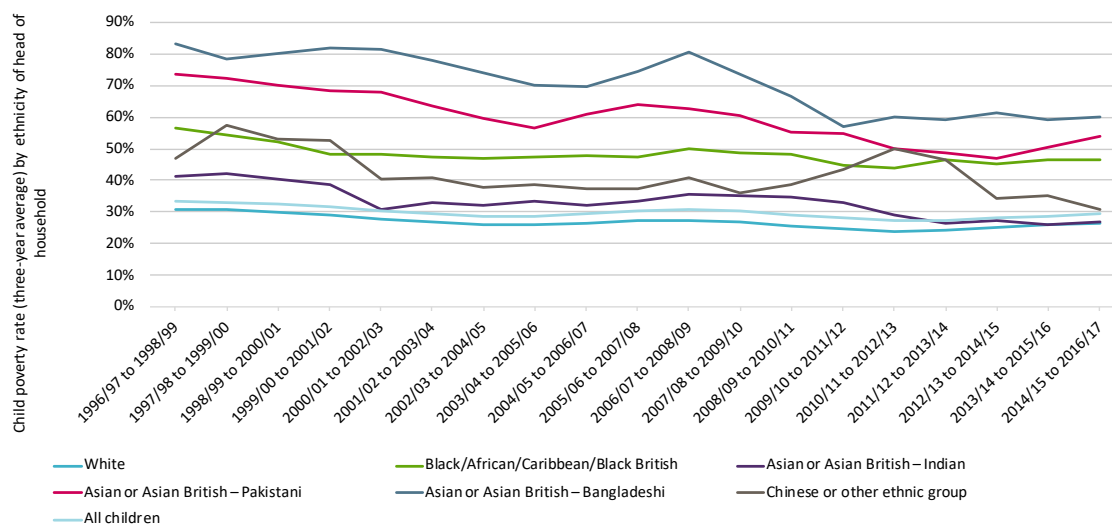


The proportion of children in poverty in White households has fluctuated over the last 20 years. In 1996/97, 31% of children living in White households were living in poverty. By 2003/06 this had fallen to 26% and despite small fluctuations over the years in between, 26% of children in White households were living in poverty in 2014/17.<sup>1</sup>

Although there is huge variation in poverty rates for different ethnic groups, and the fact that falls for various minority ethnic groups are much more dramatic, we must not underplay the rise in poverty rate among White households.

Children living in Bangladeshi households are more likely to be living in poverty than all other ethnic groups and despite the rate falling considerably from 80% of children in poverty in 1997/98–1999/00 to 60% in 2014/15–2016/17, these children remain more likely to be in poverty than children in any other households. The poverty rate among children from Pakistani households also fell considerably from 72% in 1997/98 to 1999/2000 to 48% in 2012/13 to 2014/15. More than all other ethnic groups, the Pakistani child poverty rate rose the most in the last five years, to 55%. Children in White households and children in Indian households had the lowest child poverty rates over the whole period.

### Child poverty rates: by ethnicity



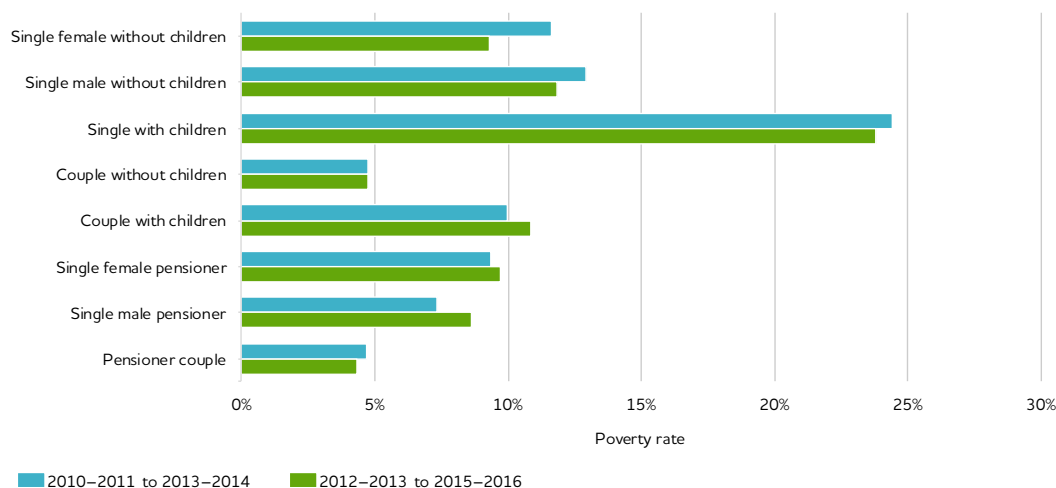
## Persistent poverty

In the two year period 2015–2016, 9.7% of the UK population were experiencing persistent poverty.<sup>3</sup> Persistent poverty is defined as being in poverty in the current year, as well as at least two out of the three preceding years. The effects of being in poverty for long periods of time are more damaging than brief periods spent with a low income, with the impacts affecting an individual through their lifetime.

The risk of persistent poverty varies greatly between groups, with lone parents at particularly high risk. One in four lone parents are in persistent poverty: twice as many as any other group. Single men without children have the next highest rate of persistent poverty at 12%. Those least likely to be in persistent poverty are pensioner couples and couples without children, although rates have risen among single pensioners and couples with children.

It is very striking that lone parents experience the highest overall risk of poverty – nearly twice as high as any other group – and are also twice as likely to live in persistent poverty.

### Persistent poverty: by family type



Note: Persistent poverty is defined by being in poverty in the final year and two of the previous three years  
Source: Understanding Society (JRF analysis)

## Destitution

More than one-and-a-half million people were destitute in the UK at some point during 2017, including over a third of a million children (Fitzpatrick et al, 2018). Destitution means going without essentials such as a home, food, heating, lighting, clothing, shoes and basic toiletries. We define destitution as when people have lacked two or more of these essentials over the past month because they couldn't afford them; or if their income is extremely low – less than £70 a week for a single adult.

Destitution tends to happen when people have been trapped in long-term poverty and deep hardship. Single, younger men are at highest risk. Three-quarters of those in destitution were born in the UK. Almost all people experiencing destitution, if they are not homeless, live in rented, temporary or shared accommodation. Destitution is clustered around the major northern cities and in some London boroughs.

The factors that tend to drive destitution are low benefit levels, benefit sanctions, and delays in receiving benefits (sometimes a lack of eligibility for benefits at all), harsh debt recovery practices, financial pressures due to poor health and disability, high costs for housing and fuel, and the rising cost of living. Extended restrictions on the benefits and support available to asylum seekers and European Economic Area (EEA) migrants also play a role for these groups.

Destitution levels declined by around 25% between 2015 and 2017, in contrast to the rise in overall poverty over this period. The reduction in destitution is likely to be related to a sharp fall in Jobseeker's Allowance benefit sanctions, demonstrating the impact that changing aspects of the social security system can have on reducing poverty and hardship. Rising employment and falls in migration, especially from some new EU member states whose migrants are potentially vulnerable to destitution, may also have contributed to this.

# Child poverty

This chapter looks at understanding the recent steep rise in child poverty in working families. It looks at how housing market changes have disproportionately affected low-income families and how the lone-parent penalty is growing. To help understand child poverty further, this chapter looks at family size and children's ages in both working and non-working families in poverty.

Introduction

**22**

Why has in-work child poverty risen?

**22**

The growing lone-parent penalty

**27**

Family size and children's ages

**29**

# Child poverty

## Introduction

Since 2011/12, the number of children living in poverty has risen by half a million to 4.1 million. The rise is largely confined to children in working families.

Twice as many children in poverty now live in working families than in families where nobody is in paid employment: 2.8 million compared with 1.4 million. In 2004/5, the number of children in poverty in working families overtook the number in non-working families for the first time. This has continued and has been growing quickly since 2010.

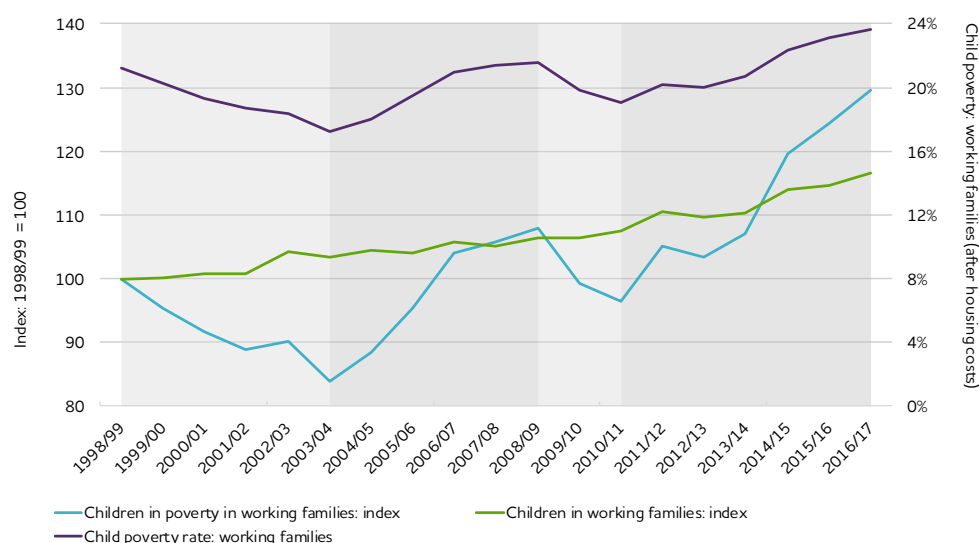
The poverty rate among children in non-working families has fluctuated dramatically in the last two decades. It fell from 83% in 1996/7 to 63% in 2012/13, only to rise again to 73% by 2016/17.

The poverty rate among children in working families has always been much lower than among non-working families, but it is rising. In 1996/7, just under one in five children in working families lived in poverty (19%). However, this has risen to nearly one in four (24%) in the last few years.

## Why has in-work child poverty risen?

The proportion of children in poverty in working families is higher now than 20 years ago (despite two specific periods of decline in this time) – it was 21% in 1998/99 and 24% in 2016/17. This is because parental employment rates have risen considerably, both among lone parents (from 39% in 1996/97 to 62% in 2016/17) and second earners in couples with children (from 63% in 1996/97 to 69% in 2016/17). However, the extent to which rising parental employment has led to lower child poverty has varied greatly. The story of in-work child poverty in the UK falls into four clear phases.

### Children in working families: poverty rates and levels



Source: Households Below Average Income (JRF analysis)

Index numbers are used when making comparisons over time. An index starts in a given year(s), the *base year*, at an index number of 100. In subsequent years, percentage increases push the index number above 100, and percentage decreases push the figure below 100. An index number of 102 means a 2% rise from the base year, and an index number of 98 means a 2% fall.

**Between 1998/9 and 2003/4**, parental employment rose, especially among lone parents, the minimum wage was established and tax credits were introduced to top up wages for low-income families. This led to a fall in the rate of in-work child poverty of 4 percentage points, and a fall in the number of children in poverty in working families of 350,000.

**Between 2003/4 and 2008/9**, the employment rate was fairly flat and the value of in-work benefits stagnated in comparison with average incomes. The incomes of those in the middle of society rose by more than those at the bottom. This led to a rise in the rate of child poverty in working families of 4 percentage points (from just over 17% to almost 22%), and a rise of 500,000 in the number of children in poverty in working families.

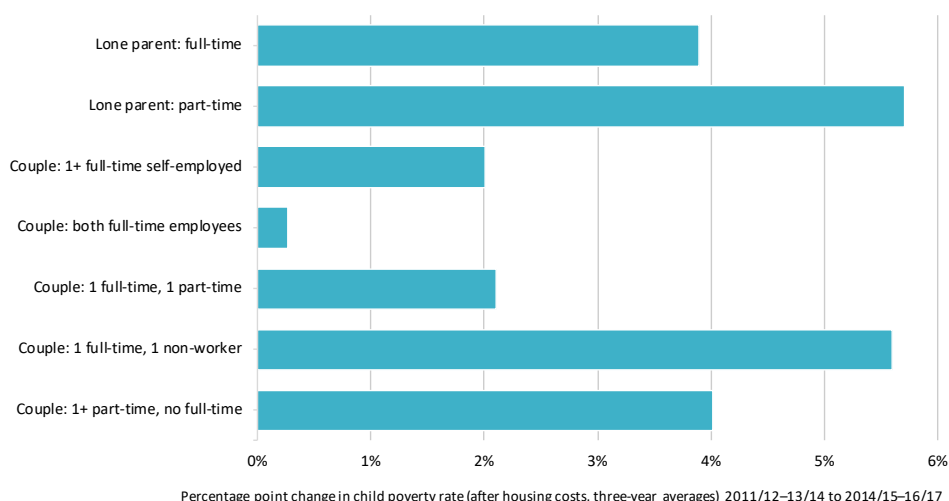
During the Great Recession, **between 2008/9 and 2010/11**, there was a big fall in income from earnings across society. However, low-income working families were somewhat protected from the impacts of this because the value of tax credits and benefits was maintained. This led to a fall in the rate of child poverty in working families of 2.5 percentage points, and a fall of 250,000 in the number of children in poverty in working families.

**Between 2010/11 and 2016/17**, both the child poverty rate and the number of children in poverty in working families have risen more steeply than at any time in the last 20 years. The child poverty rate in working families rose by nearly 5 percentage points, to the highest level in two decades. The number of children in poverty in working families rose by 710,000. Two-thirds of this rise has taken place since 2013/14.

## Understanding the recent steep rise in in-work child poverty

In the last five years, poverty rates have been rising for all types of working families – whether they are lone-parent or couple families and regardless of the number of adults in work or whether they are part-time or full-time workers. This is the first period in the last two decades when this has happened. This rise has been driven by the risk of poverty rising for children in all types of families, not by changes to how many children live in couple or lone-parent families, or by changes in the number of children in families with different numbers of workers, or by amounts of work.

### Change in child poverty rates in working families: by family type



Source: Households Below Average Income (JRF analysis)

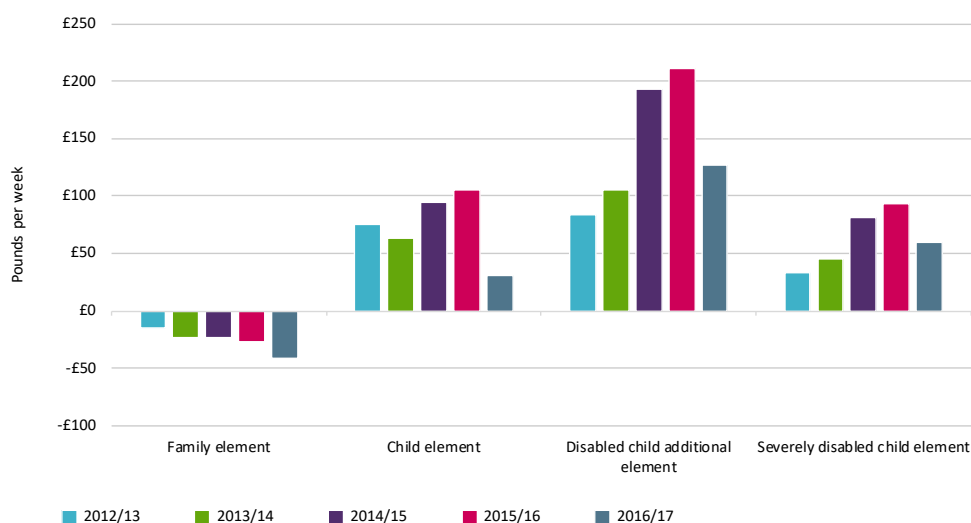


The largest contributor to the recent rise in in-work child poverty was the increase in the poverty rate for couple families (with one full-time worker and one person not working) and for lone parents working part-time.

There are three main factors that drive changes to child poverty rates: parents' earnings, tax credits and benefit changes, and housing costs.

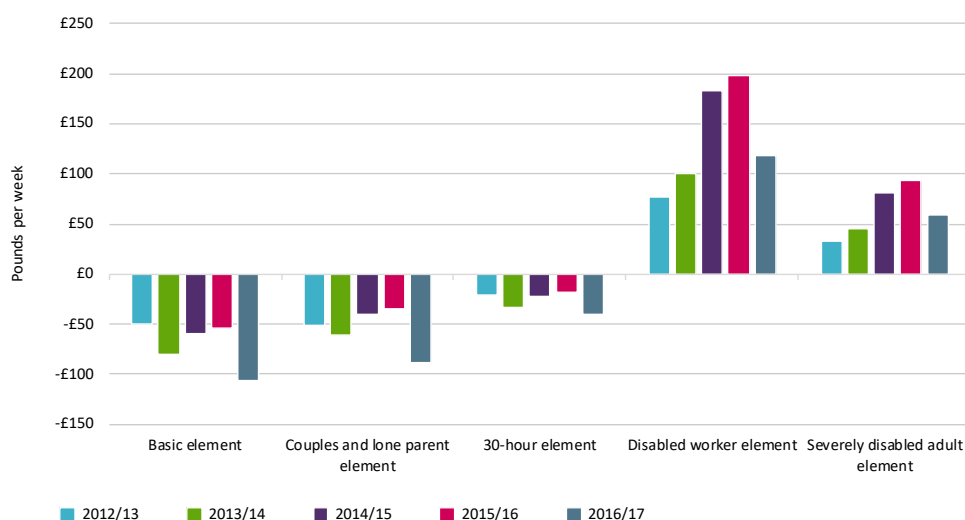
The weakening of support through tax credits in recent years has played an important part in driving up poverty among all children, not just those in working families. The maximum benefit rates across all elements of child and working tax credits are lower now than they were in 2014/15; in many cases they are lower than in 2011/12. The chart below analyses the value of the various elements that make up the maximum amount each benefit can get.

### Real term value of Child Tax Credit elements compared with 2011/12



Source: HMRC: Child and Working Tax Credit statistics: finalised annual awards in 2016 to 2017

### Real term values of Working Tax Credits compared with 2011/12



Source: HMRC: Child and Working Tax Credit statistics: finalised annual awards in 2016 to 2017

## Housing market changes have disproportionately affected low-income families

Changes to the UK's housing market have created problems in affording a home for many families. However, the impacts have been particularly stark for low-income families with children. For families with children, housing costs have grown much faster for those at the bottom than for those who are better off.

Before the Great Recession, housing costs for families grew at similar rates across all income groups. Between 2007/08 and 2009/10 housing costs fell for families in all income groups, but by far more for those who were better off. After 2009/10, housing costs continued falling for families in the richest three-fifths of the population but started rising again for those in the poorest two-fifths. The figures are based on real prices.

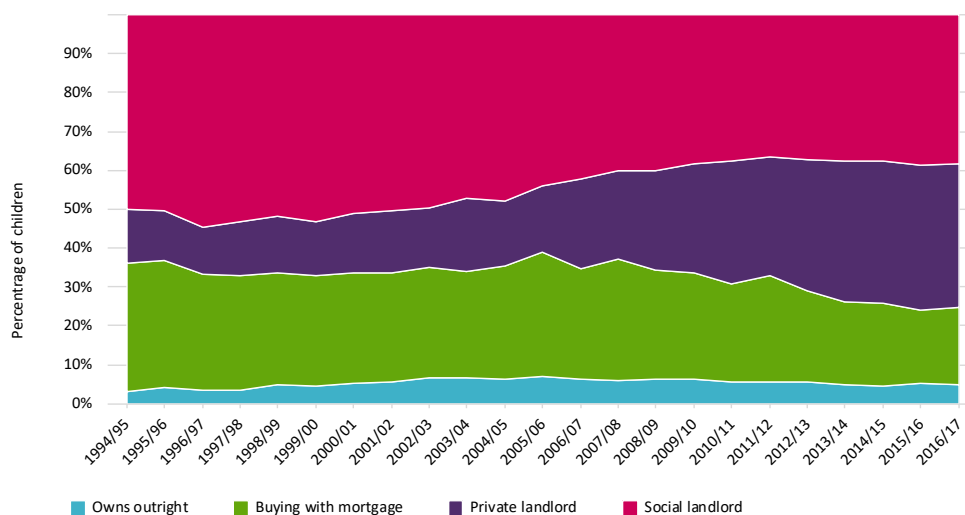
### Housing costs for families with children: by income quintile



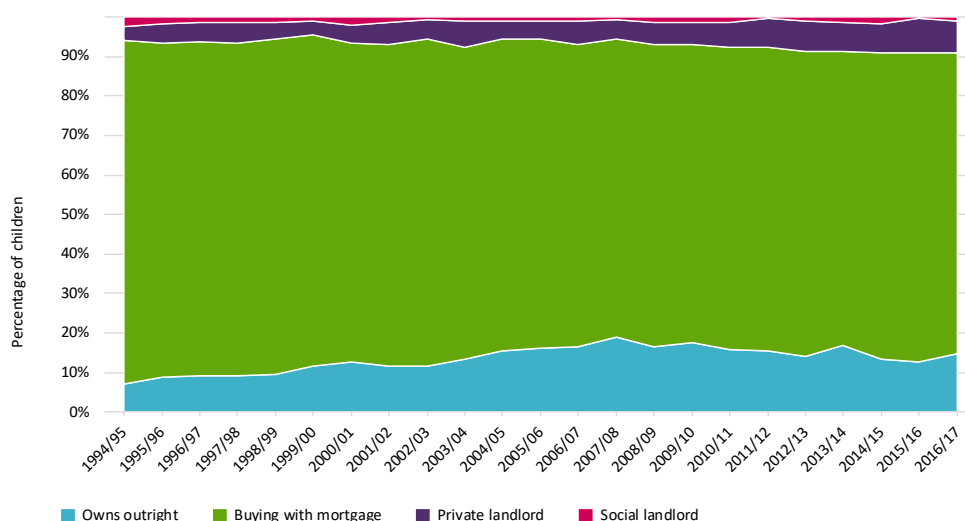
Index numbers are used when making comparisons over time. An index starts in a given year(s), the *base year*, at an index number of 100. In subsequent years, percentage increases push the index number above 100, and percentage decreases push the figure below 100. An index number of 102 means a 2% rise from the base year, and an index number of 98 means a 2% fall.

Rising housing costs have been driven largely by changes in the proportions of families living in different housing tenures. In particular, the fall in home-ownership and expansion of the private rented sector have affected low-income families far more than those who are better off. The proportion of children in the bottom quintile living in the private rented sector rose from 17% in 2005/6 to 37% in 2016/17.

### Tenure of children in the bottom quintile



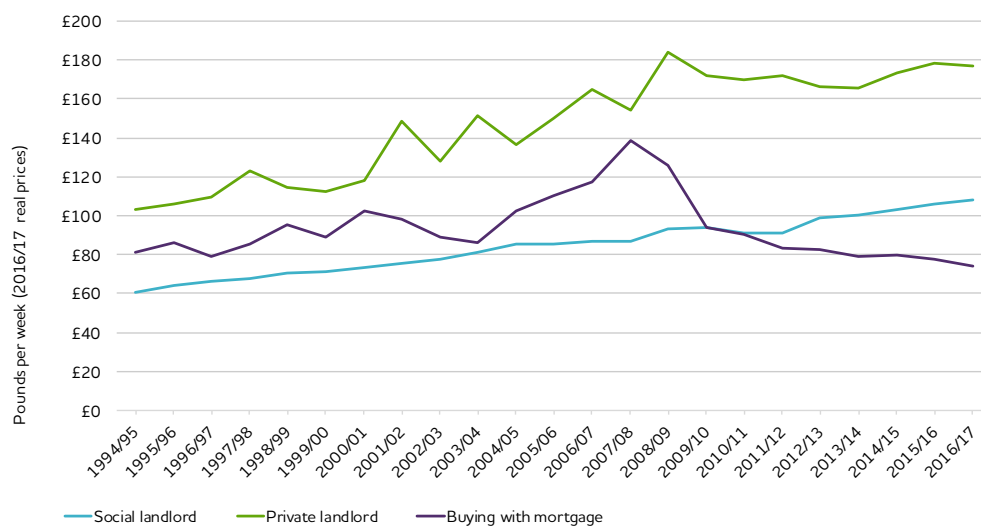
### Tenure of children in the top quintile



Private rents rose by more than two-thirds between 1994/95 and 2008/09, but have been fairly flat since then. Social rents have risen steadily for 20 years, increasing by more than three-quarters between 1994/95 and 2016/17. The cost of a mortgage rose a little between 1994/95 and 2003/04, then rose sharply to 2007/08 but has since fallen back and is now less than in 1994/95, strongly linked to record low interest rates.

Since 2009/10, the average cost of a mortgage has been lower than the average social rent. However, the barriers to buying a home have increased. The median deposit required by a first-time buyer has risen from £3,000 20 years ago to more than £25,000 now (real prices). On average, a first-time buyer now needs 90% of median household earnings for a deposit (UK Finance and ONS, JRF analysis).

### Rental costs and mortgage interest payments of working-age adults with children: by tenure



Source: Households Below Average Income (JRF analysis)

As housing costs have increased for those on low incomes, Housing Benefit has provided less and less protection from those rises. This can be seen most clearly when examining the position of families who receive full Housing Benefit because they are on an income-related out-of-work benefit.

Within this group, since 1994/95–1996/97, the proportion of single parents who have to use other income to help pay their rent has trebled, increasing from 17% to 43%. Most of this increase has occurred since 2009/10–2010/11 when the proportion was still only 25% of this group. Over the same period, the number of couple families with children who receive full Housing Benefit but still have to use other income to top it up has more than doubled – from 15% to 37%. Most of the increase has occurred since 2009/10–2011/12 when the proportion was only 24%.

What this shows is that eligible rents – the amount that Housing Benefit will cover – have been falling behind actual rents paid by low-income families. The reason is that there have been several changes to the rules governing eligible rents since 2010/11 which have had the effect of undermining the safety net provided by Housing Benefit. The result has been that low-income families have faced higher net housing costs, leading to increases in poverty.

## The growing lone-parent penalty

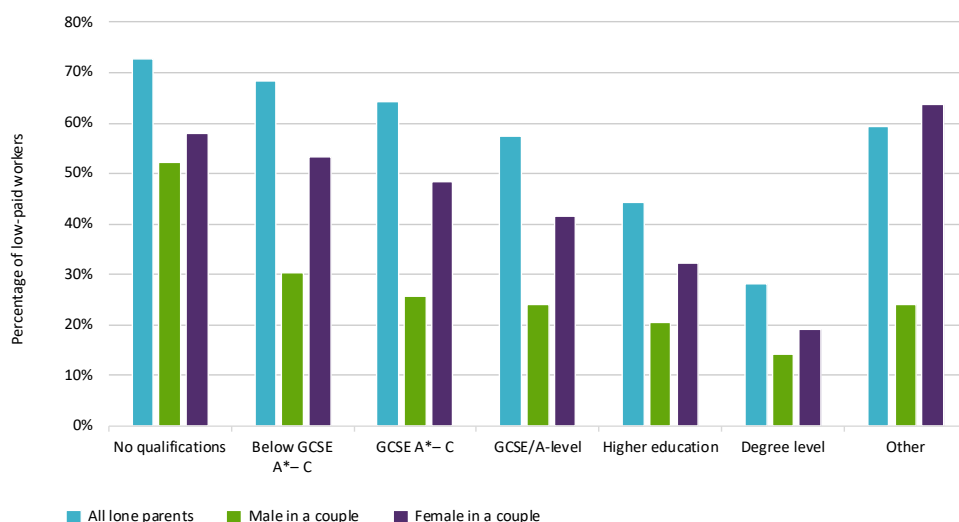
Poverty rates for children living in lone-parent families have always been much higher than for those who live in couple families. Nearly half of children in lone-parent families live in poverty (49%) compared with one in four of those in couple families (25%).

This disparity has increased over the last five years; poverty rates for children in lone-parent families have risen by around four times as much as those for children in couple families – from 42% to 49% for children in lone-parent families, and from 23% to 25% for children in couple families.

One factor driving rising in-work poverty among lone parents seems to be the disproportionate disadvantages they face in the labour market. Lone parents now have very high employment rates, although still below other parents. 63% of lone parents are in work, compared with 73% of mothers in couples and 92% of fathers in couples. Three in ten lone parents work full-time (32%) and a similar proportion work part-time (30%). Among mothers in couples, almost two-fifths (39%) work full-time and more than three in ten work part-time (34%).

However, lone parents are disproportionately likely to be low paid. Just over half of working lone parents are low paid, compared with only 37% of second earners in couples and 21% of main earners in couples. This may be partly because parents in couples are more likely to have degree-level qualifications, but lone parents at every qualification level are more likely to be low paid than similarly qualified parents in couples.

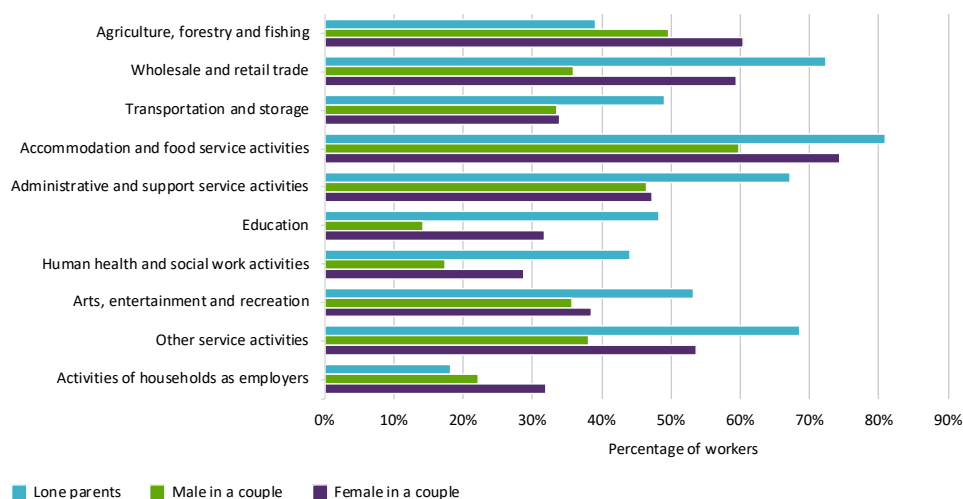
### Low-paid workers by highest qualification: by parent type and gender (2016/17)



Source: Households Below Average Income and Family Resources Survey (JRF analysis)

Lone parents are more concentrated in many sectors with high levels of low pay, and they are more likely to be low-paid in those industries than either mothers or fathers in couples.

### Workers earning below voluntary living wage by industries paying more than one-third of their workers below this wage: by parent type and gender (2014/15 to 2016/17)

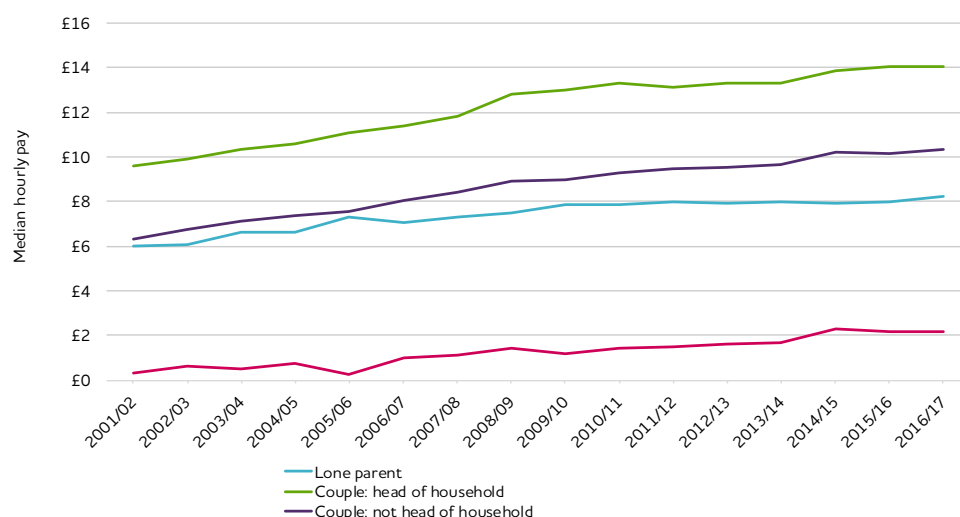


Source: Households Below Average Income and Family Resources Survey (JRF analysis)

Median pay for lone parents has fallen increasingly behind pay for both the main and second earner in couples since 2005/6. In 2001/2 there was a £0.31 pay gap between lone parents and the second earner in couples. By 2016/17 the pay gap was £2.14 an hour. Over the same period, the pay gap between lone parents and the main earner in couples increased by nearly two-thirds from £3.59 an hour to £5.86.

This was due to both earners in couples experiencing much faster pay growth than lone parents. Between 2001/2 and 2016/17, main earners in couples saw their pay rise by 47%, second earners by 64% and lone parents by only 37%.

## Pay by parent type and position in the household



One factor that may affect lone parents' ability to access better-paying work, and to bargain for higher pay, is that they are less likely to travel for work to a different area from the one they live in. In 2017, just over three in ten working lone parents (31%) lived and worked in different local authority areas, compared with half of main earners and around four in ten (39%) of second earners in couples and non-parents (42%). A similar pattern exists when looking at full-time workers only: 38% of full-time working lone parents lived and worked in different local authority areas, compared with 52% of full-time main earners in couples and 36% of full-time second earners in couples.

In addition to their labour market disadvantages, lone-parent families have also been affected more heavily by the squeeze in housing affordability. Almost a third of children in lone-parent families live in households where housing costs take up more than a third of the household income. This proportion has increased by 5 percentage points in the last five years. This compares with only 12% of children in couple families living in households where this is the case, less than 1 percentage point higher than five years ago. As discussed above, the proportion of lone-parent families in poverty receiving full Housing Benefit who have to use income other than Housing Benefit to pay their rent has trebled since 2006/7; the proportion of couple families in poverty doing so has doubled.

## Family size and children's ages

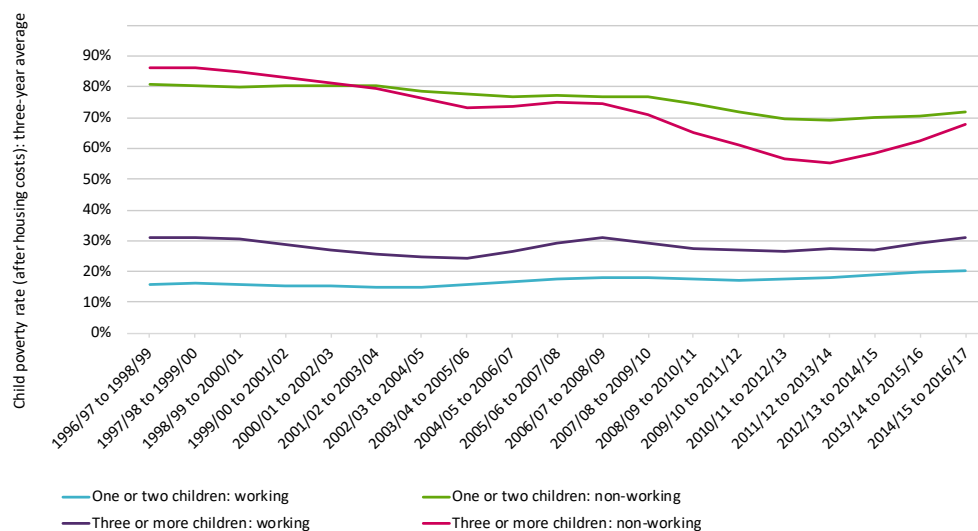
Poverty rates vary greatly depending on the number and age of children in the family. Having younger children and larger families affects parents' ability to work, the hours they can work and their pay. Factors such as the availability and cost of childcare, access to flexible work and families' own preferences all affect the extent to which the parents of younger children in particular are willing and able to do paid work as well as care for their children. Entitlements to benefits and tax credits are also affected by the number and age of children, and, of course, larger families need a higher income to cover their needs.

In families where one or both parents are in work, the poverty rate is strongly related to the number of children in the family. In working families with three or more children, 30% of children are in poverty, compared with only 20% of those in working families with one or two children. There are now 320,000 more children in poverty in families with three or more children compared with 2011/12, with most of the increase (200,000) among working families.

In non-working families, poverty rates are much higher, and are very similar regardless of family size: 68% of children are in poverty in non-working families with three or more children, and 72% in families with one or two children.

It should be noted that these rates do not yet reflect the impact of the decision to limit benefits to the first two children in families. Only around 70,000 families have been affected by this policy so far but it is expected to be a major driver of increases in child poverty over the next few years, given the sizeable proportion of families who have more than two children.<sup>4</sup> Across the whole population, just under three in ten families (28%) have three or more children. Among children in poverty, 38% live in families that have three or more children. Since 2012/13, the proportion of children in poverty who live in large families has been increasing, and the proportion in smaller families has declined. This reverses the trend over the previous 15 years of a rising proportion of child poverty being in smaller families and the proportion in larger families falling.

### Number of children and work status of families: child poverty rates



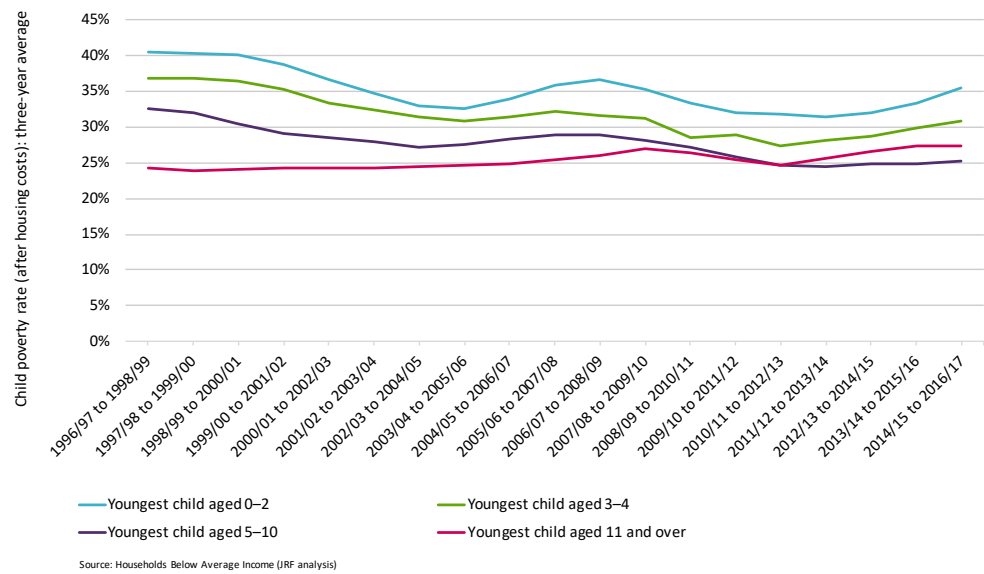
Source: Households Below Average Income and Family Resources Survey (JRF analysis)

About 36% of children in poverty live in families with a child two years old or younger, 15% in families with a youngest child aged three or four, 27% in families with a primary school age child and none younger, and 22% in families with secondary school age children only.

Families with children under two are most likely to be in poverty (whether their parents are in work or not), followed by those in families with children aged three and four. Poverty rates for children in these families have been climbing since around 2011/12.

Children in families with older children are less likely to be in poverty. Among families with older children, those with primary school aged children were more likely to live in poverty than those with secondary school aged children until 2011/12. However, since around 2011/12, poverty among primary school aged children has remained flat, while the rate for families with secondary school aged children has increased.

Age of youngest child in family: child poverty rates





# Workers in poverty

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As a working-age adult in poverty is now more likely to be in a working family than a non-working family, this chapter looks at what lies behind the growth of in-work poverty, and the importance of full-time employment. It also looks at occupations with the highest risk of poverty.

Introduction

**33**

What lies behind the growth of in-work poverty?

**33**

Conclusion

**37**

# Workers in poverty

## Introduction

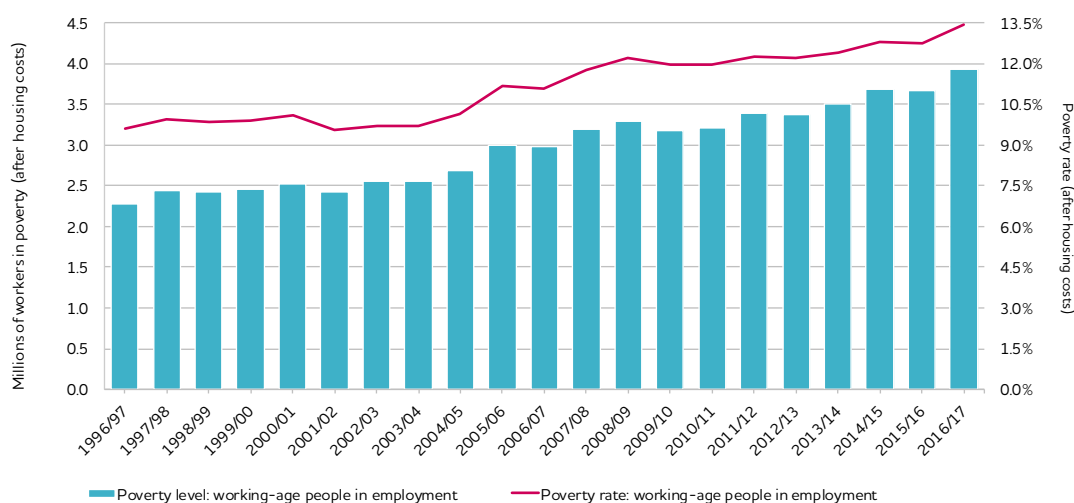
The number of workers<sup>5</sup> in poverty in the UK has risen by half a million in five years, to four million. The in-work poverty rate is the highest it has been in the last 20 years.<sup>6</sup> Despite the employment rate having recently increased to a historic high, it has not resulted in a fall in the overall poverty rate for people of working age. For many families, having someone in work is not proving to be a route out of poverty.

Since 2004/05, the number of workers in poverty has increased at a faster rate than the total number of people in employment. Working-age people in poverty are now more likely to be in working families than in non-working families.

## What lies behind the growth of in-work poverty?

The pattern of changes to poverty rates and levels for workers reflects four distinct periods similar to those discussed more fully in Chapter 2.

### Workers in poverty: rates and levels



Source: Households Below Average Income and Family Resources Survey (JRF analysis)

In the first period, to 2003/04, the introduction of the minimum wage and working tax credits contributed to a static poverty rate of just under 10% for workers.

During the five years to 2008/09, the poverty rate for workers increased by 2.5 percentage points, as the value of in-work benefits increased at a slower rate than average income (which is driven mainly by the earnings of middle-income families) so the overall income of workers on benefits increased at a slower rate than the average income.

During and immediately after the Great Recession (2009/10 to 2012/13), the poverty rate among workers stayed static as real earnings were falling across the income distribution, affecting both middle earners and lower earners.

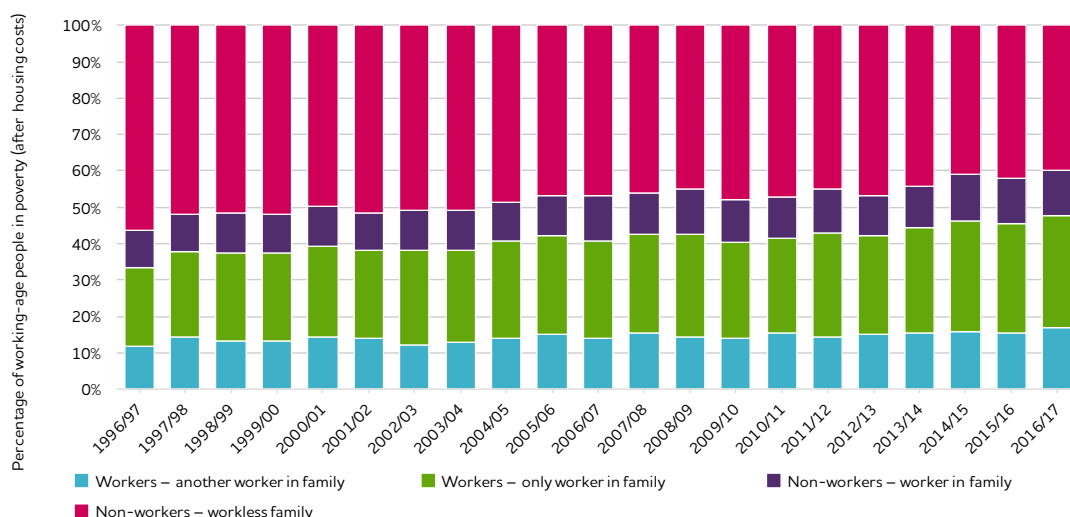
Since 2012/13, however, an increasing proportion of workers have been swept into poverty as the incomes of lower earners have not grown as fast as for other workers because of changes to the benefit system. During this period the poverty rate for workers has increased by 1.2 percentage points to 13% and the number of workers in poverty has grown by more than half a million to almost four million. The increase in the minimum wage for people aged 25 and over from April 2016 did not reduce worker poverty in 2016/17 compared with a year earlier because it came at the same time as cuts to benefits that were larger.

## A working-age adult in poverty is now more likely to be in a working family than a non-working family

Increasing in-work poverty over the past 20 years has altered the composition of working-age poverty. Three-fifths of the people in this age group who are in poverty now live in a family where someone is in employment. Nearly half are, themselves, working.

This contrasts with two decades earlier, when more than two-thirds of working-age people in poverty were non-workers. At that time, a focus on increasing employment led to a decrease of 2 percentage points in the poverty rate in the five years to 2001/02. Tackling poverty now requires more focus on people who are already in work.

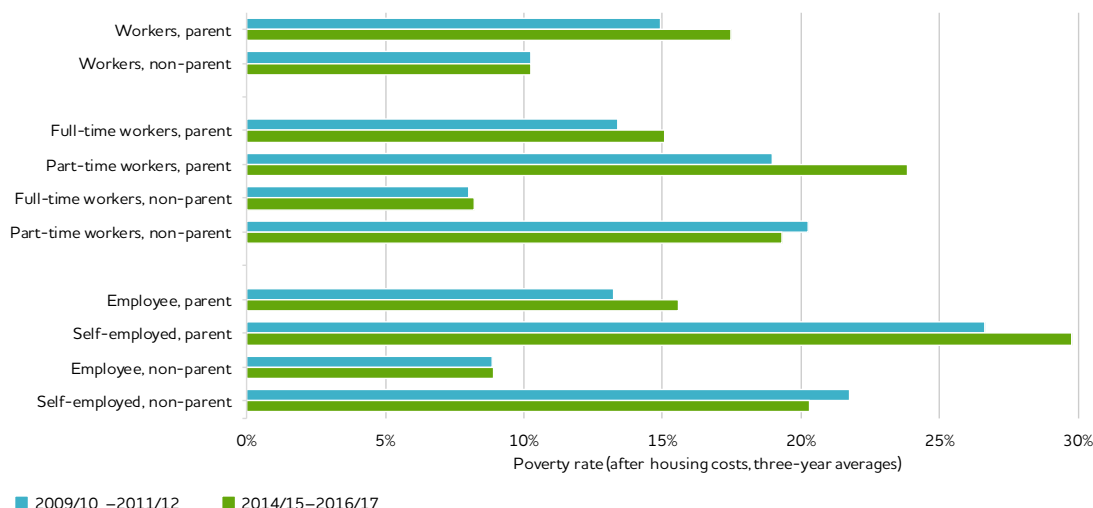
### Working-age poverty composition: workers and non-workers



## Increased poverty among working parents is driving recent trends

A working parent is more than one-and-a-half times more likely to be in poverty than a working non-parent. As support from tax credits has weakened, the growth of in-work poverty over the past five years has been almost entirely driven by the increase in the poverty rate of working parents.

### Poverty rates of workers by whether or not a parent

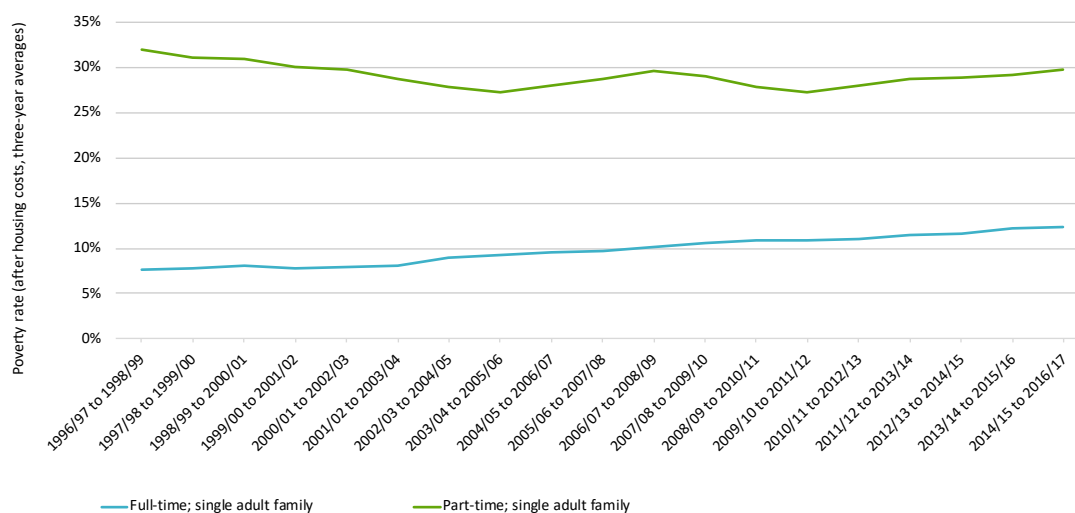


The rates have increased for both full-time and part-time working parents regardless of whether they are employees or self-employed. Weakening support for parents<sup>7</sup> working part-time has resulted in them experiencing the largest increase in poverty rate of any group (almost 5 percentage points).

### Worker poverty: the importance of full-time employment

Single adults who work full-time are much less likely to be in poverty than those who work part-time: 12% compared with 30%.

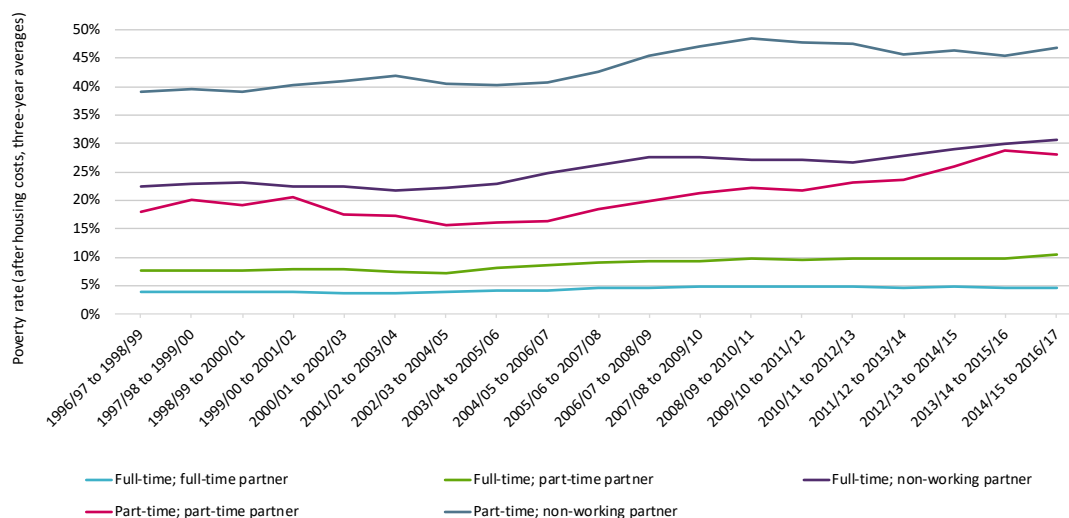
### Poverty rates: workers in single adult families



Families that include two earners are much less likely to be in poverty. A single full-time income has become increasingly ineffective at lifting families out of poverty, with the rate for full-time workers with a non-working partner growing by almost 4 percentage points in the last five years.

Poverty rates are lowest where a couple are both in full-time employment, and also low where the second earner is working part-time. Couples with only one earner and couples with only part-time workers are at a higher risk of poverty.

### Poverty rates: workers in couple families by work status of partner



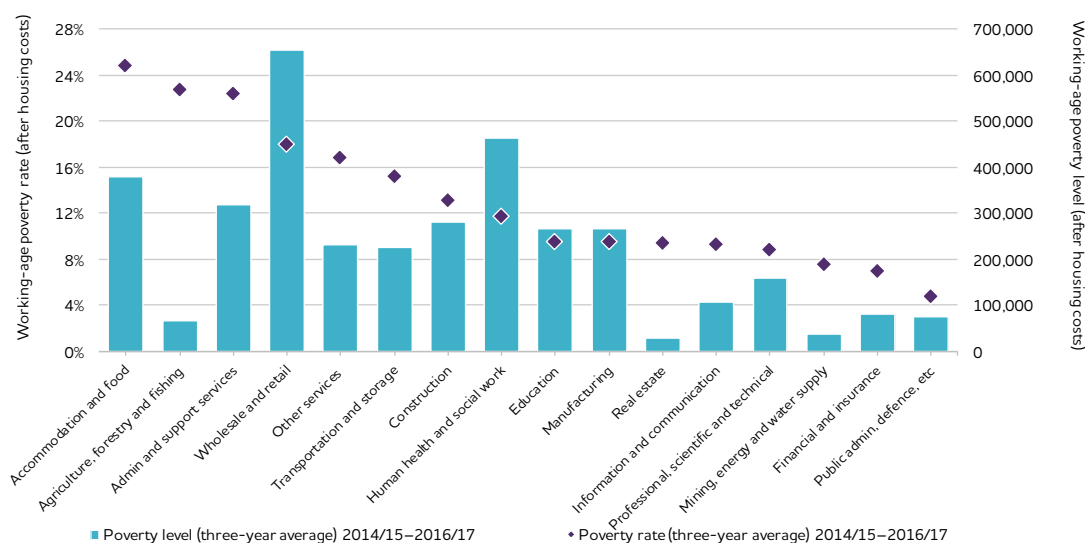
Source: Households Below Average Income, Family Resources Survey (JRF analysis)

### Workers are most at risk of poverty in the food and accommodation industry

Although in-work poverty is not confined to workers in traditionally low-paid occupations, three industry groups (out of 16 in total) contain two-fifths of the workers in poverty: wholesale and retail (18%); human health and social work (12%); and accommodation and food services (10%).

The poverty rate is highest for those in accommodation and food services (25%), agriculture, forestry and fishing (23%), administrative and support services (22%), and wholesale and retail (18%). In the past five years, the poverty rates for workers in the second and third of these industries have increased by more than in any other industry (by 6 and 5 percentage points, respectively).

### Workers in poverty: rates and levels by industry



Source: Households Below Average Income and Family Resources Survey (JRF analysis)

• Poverty rate (three-year average) 2014/15–2016/17

## Conclusion

Poverty rates for workers are higher than at any point in the past 20 years.

The growth of in-work poverty over the past five years has been almost entirely driven by the increase in the poverty rate of working parents as reductions to benefits and tax credit entitlements have reduced incomes for many. Recent JRF analysis has highlighted that half of all children in poverty are in families where parents are meeting employment expectations within Universal Credit and about half of the rest are in families that contain a disabled person.<sup>8</sup> This suggests that the solution to working poverty must focus on pay, tax credits and housing costs as well as employment rates and hours.

The effectiveness of the National Living Wage (NLW) in loosening the grip of poverty on low-income working families has been muted by the effects of tax and benefit reforms, which are projected to have an even greater impact over the next few years. Many low-paid workers do not live in families on low incomes because of the earnings of other people in their families. Many of the low-paid workers who are in poverty have seen the benefits of a higher minimum wage and lower tax more than outweighed by cuts to tax credits. The incomes of low-income working families are affected not only by their hourly pay but also by how much they work and by the tax credits that top up low wages. The NLW has made a positive difference to many low-paid workers and their families, but, in isolation, it cannot solve in-work poverty: that requires action to improve the support provided by tax credits, reduce housing costs and help parents to progress past the NLW and into sustained better-paid work.

# Pensioner poverty

This chapter looks at the impact of housing costs for pensioners and how the recent rise in pensioner poverty, after a dramatic fall in the UK, has primarily been driven by rising poverty among pensioners renting their homes. It looks at the proportion of people retiring with a private pension and/or occupational pensions, and how pension trends among men and women have been quite different.

Introduction

**39**

The impact of housing costs on  
pensioner poverty

**39**

Private pension saving and future prospects

**41**

Conclusion

**42**

# Pensioner poverty

## Introduction

One in six pensioners lives in poverty, a lower rate than for children and working-age adults. Twenty-two years ago, three in ten pensioners lived in poverty. That rate more than halved, falling to 13% in 2012/13, before rising again to 16% in 2015/16 and staying at that level in 2016/17.

The main falls in pensioner poverty took place between 1998/99 and 2004/05. This was mainly due to increased state benefit income, particularly the introduction of the Minimum Income Guarantee (later renamed Pension Credit), increasing private pension incomes and rising home-ownership which reduced housing costs later in life.

The rate of pensioner poverty is currently steady, but underlying trends in housing and pension saving suggest a risk of it rising again in the future.

## The impact of housing costs on pensioner poverty

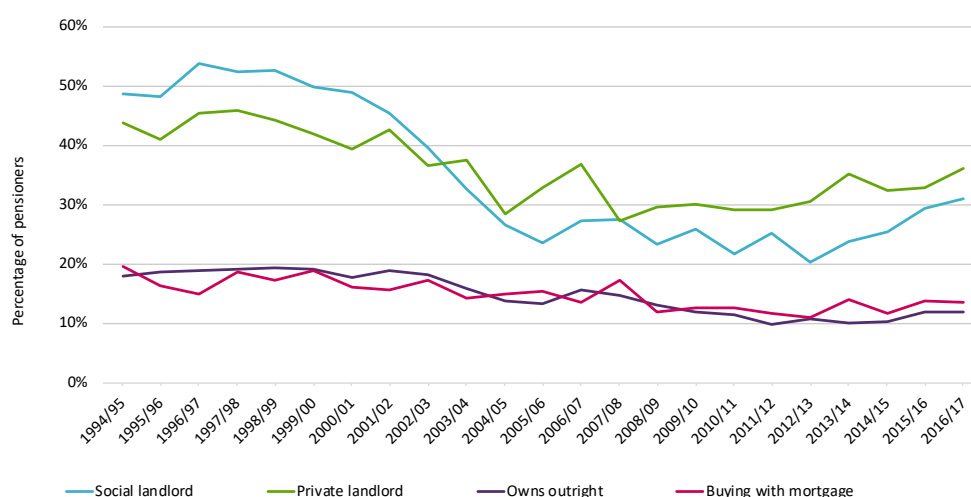
The recent rise in pensioner poverty (AHC) has been primarily driven by rises in poverty among pensioners who rent.

- Between 2007/08 and 2016/17, the poverty rate for pensioners in the private rented sector rose by a third, from 27% to 36%.
- The rise in poverty among social renters did not start until 2012/13, but has since been very steep – rising by half, from 20% to 31%.
- By contrast, poverty rates among pensioners who own outright or with a mortgage have changed very little over the last decade.

Of the 330,000 more pensioners who have moved into poverty since 2012/13, 60,000 have been private renters and 130,000 have been social renters. This means that over half of the increase in the number of pensioners in poverty came from the rental sector, despite only one in five pensioners renting their home.



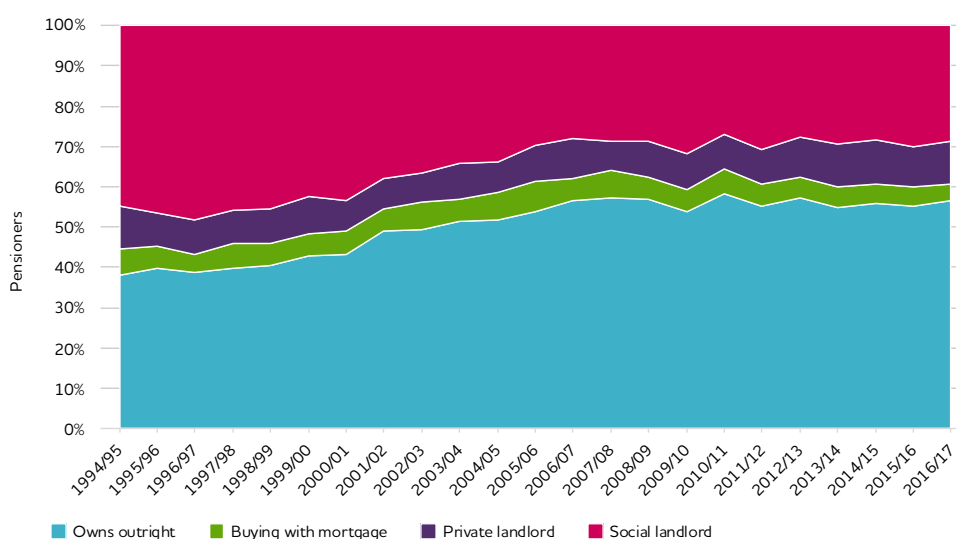
### Pensioner poverty rates: tenure



Source: Households Below Average Income (JRF analysis)

Rising home-ownership helped to lower poverty in the late 1990s and early 2000s but stalled around 2007/08 for pensioners in the poorest fifth, and for the rest of the population in 2010/11.

### Composition of pensioners by tenure in bottom income quintile



Source: Households Below Average Income (JRF Analysis)

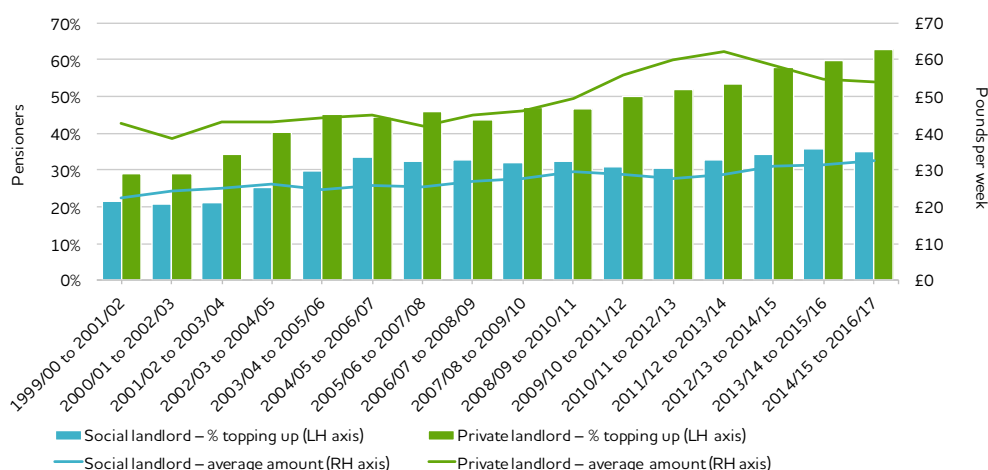
Only 45% of the pensioners in the poorest fifth owned a home (outright or with a mortgage) 22 years ago; this rose to 61% in 2016/17, but remains much lower than the rest of the pensioner population. Now around two-fifths (39%) of low-income pensioners still rent their homes, and are therefore exposed to rising rents and falling support. Looking at housing costs for pensioners in the poorest fifth, the weekly cost (real prices) in 2016/17 was £50 for those paying a mortgage, £81 for those private renting and £90 for those social renting. These amounts were quite different in 2007/08 at £67, £59 and £72 a week respectively.

As housing costs have increased for those on low incomes, Housing Benefit has provided less and less protection from those rises. This can be seen most clearly when examining the position of pensioners in poverty who receive full Housing Benefit because they are on an income-related benefit.

Within this group, since 1999/2000 to 2001/02 the proportion of pensioners who have to use other income to help pay their rent has risen from 21% to 35% in the social rented sector and 29% to 63% among private renters. Since 1999/2000 to 2001/02 the amount of other income that households with pensioners have to use to meet their rent has also increased greatly – up by a half for social renters, from £22 to £33 a week, and increasing by just over half for private renters, from £43 to £54 per week.

There have been several changes to the rules governing eligible rents since 2010/11 that have undermined the safety net provided by Housing Benefit. Because of this, eligible rents – the amount that Housing Benefit will cover – have been falling behind actual rents paid by low-income pensioners.

### Pensioners on housing benefit topping up this benefit with income from other sources: weekly top up amount



Note: This chart only includes pensioners in households that are in receipt of Income Support, income related Employment and Support Allowance, Unemployment Benefit, income based Jobseeker's Allowance or the guaranteed part of Pension Credit.

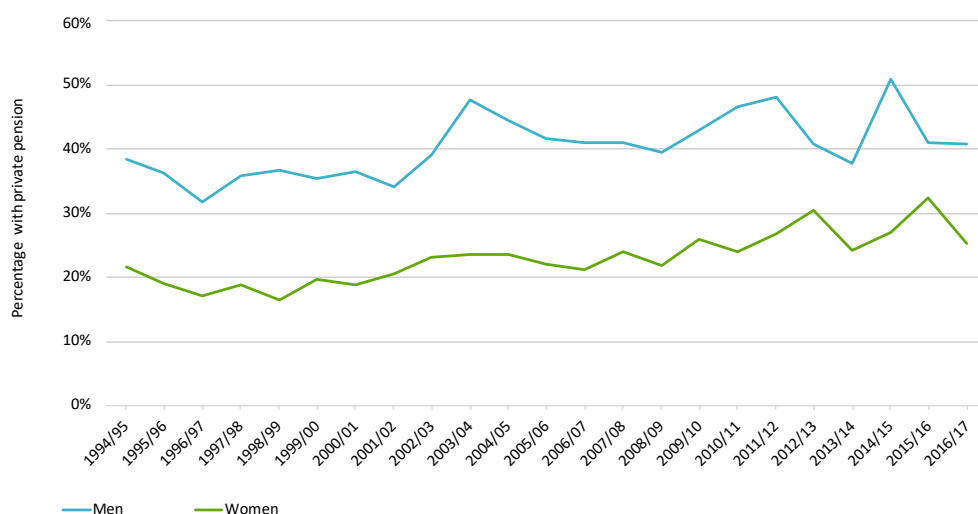
Source: Households Below Average Income (JRF analysis)

## Private pension saving and future prospects

Over the last two decades, there has been a big increase in the proportion of people retiring with a private pension and in the amount of income that successive cohorts of pensioners receive from occupational pensions. However, increases in both coverage and the amount received have not been felt to the same degree across all groups. In particular, trends among men and women have been quite different, and the experience of those on low incomes has not matched those who are better off.

Overall, the proportion of men aged between 65 and 69 who receive some private pension income has not changed much in 20 years – between seven in ten and eight in ten. However, the proportion of women aged 65 to 69 receiving a private pension income has risen by nearly half, from 38% to 56% (it must be noted that women are on average older than men in the pensioner group and as such from a different cohort). In contrast, looking at those in the poorest fifth of the population, the proportions of both men and women receiving some private pension income has risen very modestly over the last two decades.

### Private pension coverage for 65- to 69-year-olds in the bottom income quintile by gender



Source: Households Below Average Income and Family Resources Survey (JRF analysis)

Turning to the amount of income received from private pensions, in the population overall levels have risen for both men and women, but the gender gap has increased. By contrast, the gender gap within the poorest fifth is very small and the amounts received have increased but remain far below those of the population in general. The average amount received by men aged 65 to 69 in the poorest fifth has doubled and for women it has risen by 9%; however, it remains only around a quarter of the average amount received by pensioners overall. This means that pensioners in the poorest fifth are still receiving far less from their private pension than the average.

## Conclusion

The fall in pensioner poverty in the UK has been a very striking success story. However, one in six pensioners are still in poverty, and the rate has risen in recent years. There is also a risk of pensioner poverty rising further in the future due to current trends in housing and pension saving.

The increase in home-ownership that helped to lower poverty in the late 1990s and early 2000s stalled around 2007/08 for pensioners in the poorest fifth, and for the pensioner population overall in 2010/11. A substantial minority (39%) of low-income pensioners continue to rent their homes. The impact of rising rents and falling support has driven big rises in poverty among pensioners in both the private and social rented sectors. This situation is likely to get worse in the future as home-ownership rates among working-age people have been falling, from 72% in 1994/95 to 61% in 2016/17.

Similarly, the overall increase in the proportion of people receiving a private pension income when they retire has not benefited those on low incomes to the same degree as those who are better off. Since 2012 (when the workplace pension scheme was introduced and auto-enrolment for employees started) the proportion of working-age people contributing to a pension scheme has increased from 34% to 45% (Family Resources Survey, 2016/17).<sup>9</sup> However, among the poorest fifth of the working-age population, only one in six are contributing to a private pension scheme, compared with nearly six in ten (60%) of those in the richest fifth of people.

# Impact of poverty

This chapter looks at how poverty affects day-to-day lives and future prospects. It looks at the relationship between poverty and poor physical and mental health, and ultimately healthy life expectancy. It also looks at people's worries, how far they feel in control of their situation, and the link between destitution and debt, health and wellbeing.

Introduction	<b>44</b>
Physical and mental health	<b>44</b>
Worries and feelings of control	<b>45</b>
Debt and savings	<b>46</b>
Conclusion	<b>48</b>

# Impact of poverty

## Introduction

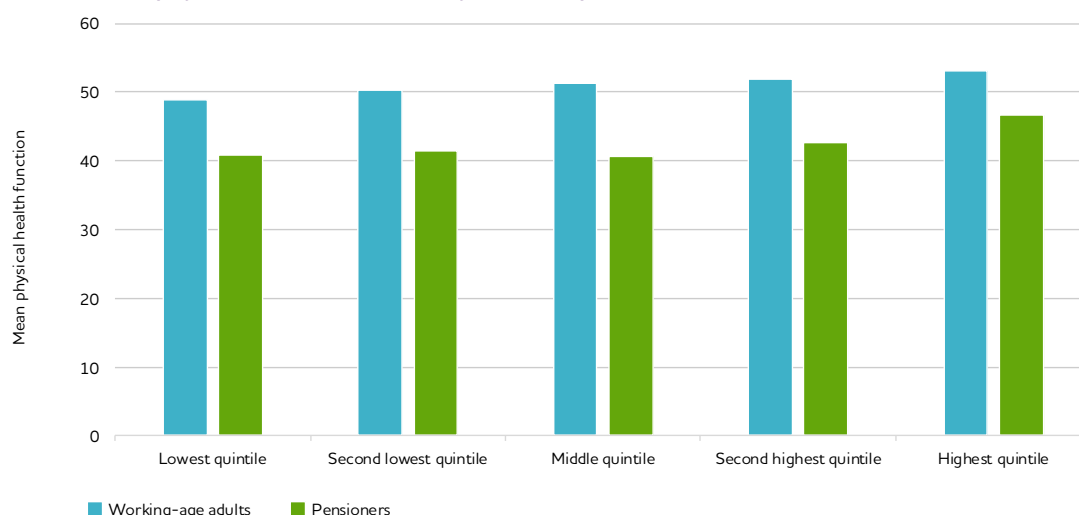
Poverty affects many aspects of people's day-to-day lives and future prospects. People on lower incomes are much more likely to experience poor physical and mental health than those who are better off. Living in poverty, or surviving in extreme poverty (destitution) (Fitzpatrick et al, 2018) makes a difference not only to how much debt you are in, or whether you have any savings, but to how long you are alive and your health throughout your lifetime.

## Physical and mental health

People living in poverty are much more likely to experience poorer physical health than those who are better off. Being disabled or in poor health can also contribute to having a low income, as people may find it harder to work, have lower earnings and face additional costs.

People living on low incomes have a lower average physical health score<sup>10</sup> (a higher score indicates better physical health) than those on higher incomes. There is a clear link between physical health and income level for working-age adults, with physical health improving as income increases. For pensioners, however, there is little difference between physical health and income apart from for the richest fifth where the health score is considerably higher.

### Mean physical health function: by income quintile (2015–16)



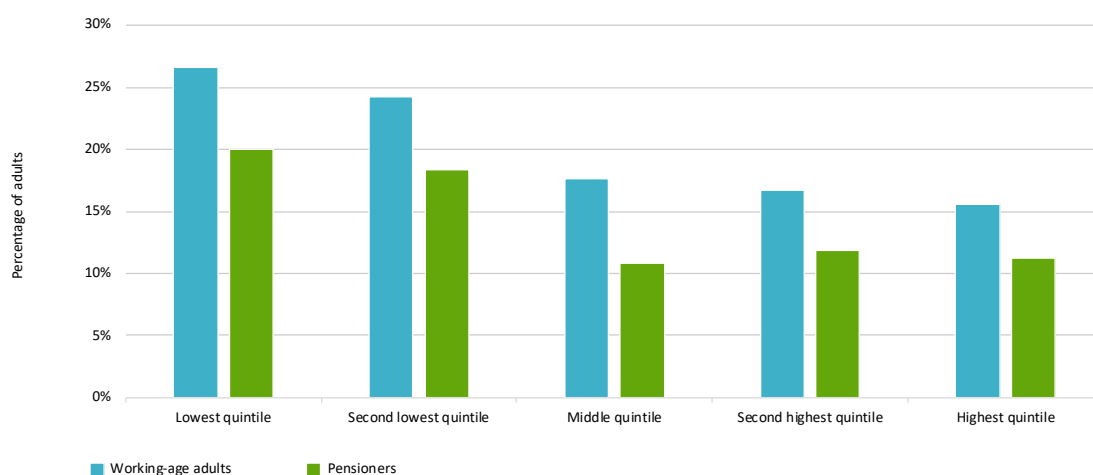
Source: Understanding Society (JRF analysis)

As well as a relationship between poverty and poor physical health there is an even stronger link between household income and having mental health issues such as anxiety and/or depression. Poverty increases the likelihood of developing mental illness, and mental illness increases the risk of poverty. As with physical health, the two are inextricably linked.

Just over a quarter of working-age adults in England in the poorest fifth of the population (bottom income quintile) experience depression and/or anxiety (27%). As income increases, the risk of these mental health conditions decreases; only 16% of adults in the richest fifth of households experience mental health problems.

Again, the pattern is different for pensioners, the highest risk being for the bottom two quintiles (18% to 20%) then little difference between those in the top three income groups.

### Depression or anxiety: by age and income quintile (2016)



These relationships between income and physical and mental health are linked to poverty being a major risk factor for premature death, that is, having a lower life expectancy than people who are not in poverty. The differences in the healthy life expectancy of those with different incomes is striking. Overall, people living in more deprived areas have a much lower healthy life expectancy than those in less deprived areas.<sup>11</sup> The difference between the latest healthy life expectancies in the least and most deprived fifth of areas in England is more than 15 years for both men and women.

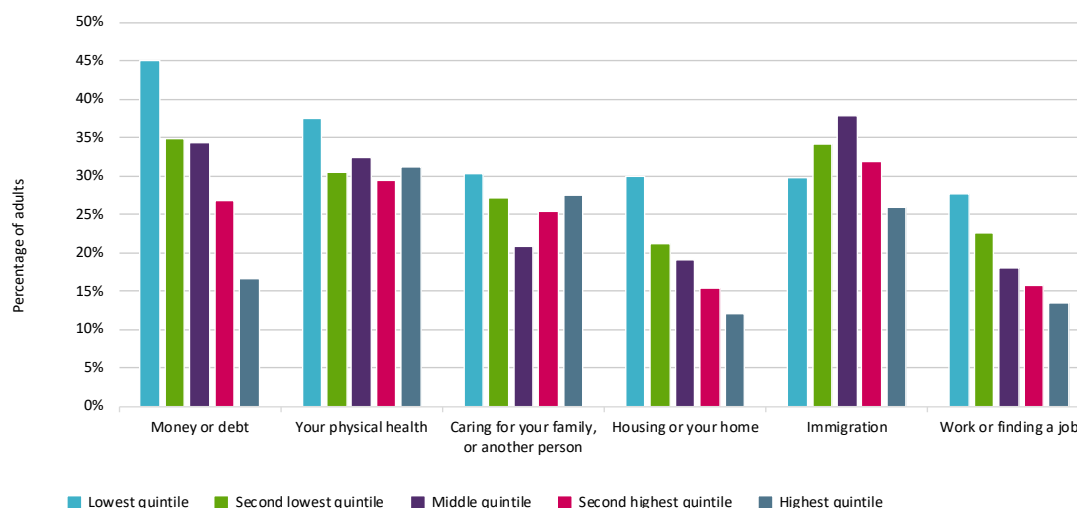
## Worries and feelings of control

One important element of the relationships between poverty and health is the high and prolonged stress that many people in poverty experience. Feeling this overwhelming stress for a long period of time is often called chronic, or long-term stress, and it can affect both physical and mental health.

Unsurprisingly, people on low incomes are much more likely to be worried and stressed about money and debt, housing and work, or finding a job, than people who are better off.

Nearly half (45%) of people in the poorest fifth of the population in Great Britain were worried about money or debt in 2016. Other top concerns or worries were physical health (38%), caring for family (30%), housing (30%), immigration (30%) and work or finding a job (28%). Of course these are related – worrying about income could lead to worrying about work/finding a job and housing. People in the middle three income groups are less likely to be worried about money or debt, with 27% to 35% of these people having these concerns. The likelihood of worrying about money or debt issues is significantly lower for people in the highest income group, where only 17% have such worries.

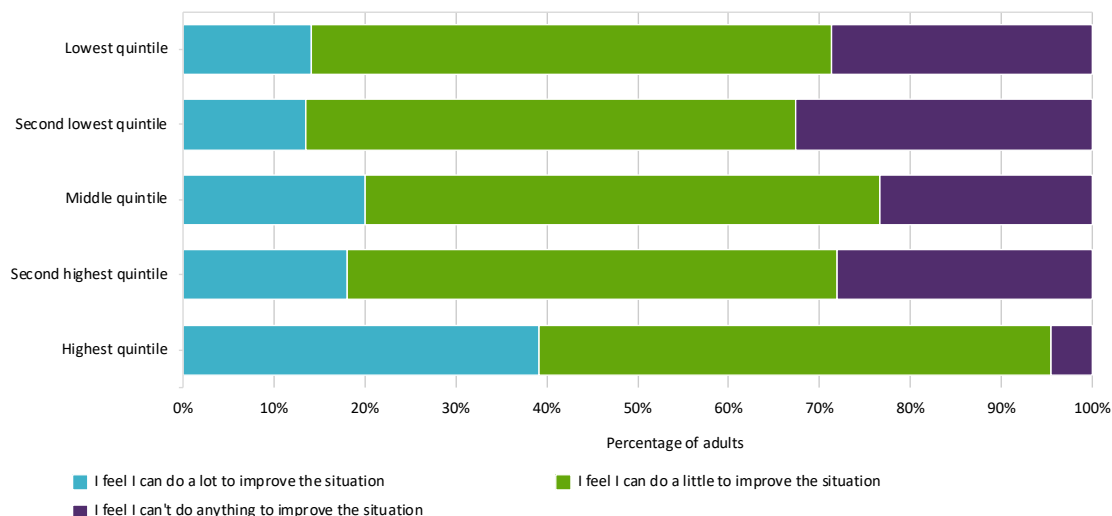
### The six most frequent concerns or worries: by income quintile (2016)



Immediate everyday stress is exacerbated for people on lower incomes as they are much more likely to feel they have little control over improving their financial position than those in the richest fifth of the population.

Only one in seven people in the lowest income group felt that they could do a lot to improve their situation in relation to money or debt, compared with two in five of the richest fifth.

### Feeling of control about money or debt: by income quintile (2016)



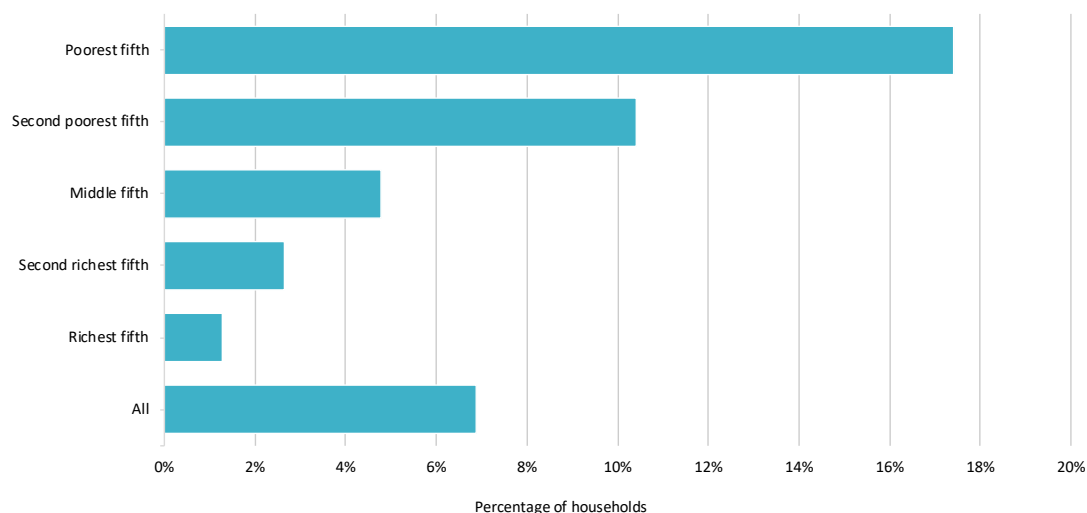
## Debt and savings

People living in poverty not only have low incomes week-to-week, they are also much more likely to be destitute and less likely to be able to build up savings to cover unexpected expenses, invest in improvements to their homes or access opportunities. Debt and health conditions are also key drivers of the most extreme form of poverty in the UK – destitution.

There is a strong link between destitution and health and wellbeing. Owing a debt to a credit union has the least serious impact on mental wellbeing while payday loans and unauthorised overdrafts have the worst effect. As a result of the stress of being in debt, the majority of people with payday loans report losing sleep, being too depressed or distressed to spend time with others and eating less healthily as they cannot afford healthy food (RSPH, 2018).

Problem debt, measured in the Family Resources Survey as being behind with any household bill or credit commitment, was reported by 7% of households in the UK in 2016/17. However, one in six in the poorest fifth of households were behind with a household bill or credit agreement. They are more than 1.5 times as likely to have problem debt than the second poorest fifth (10%), and more than 13 times more likely than the richest fifth where only 1% of households are in problem debt. The proportion of households with problem debt has decreased slightly since 2012/13 and the proportion of households in the bottom fifth in particular declined from 22% in 2012/13 to 17% in 2016/17.

### Problem debt: by income quintile (2016/17)

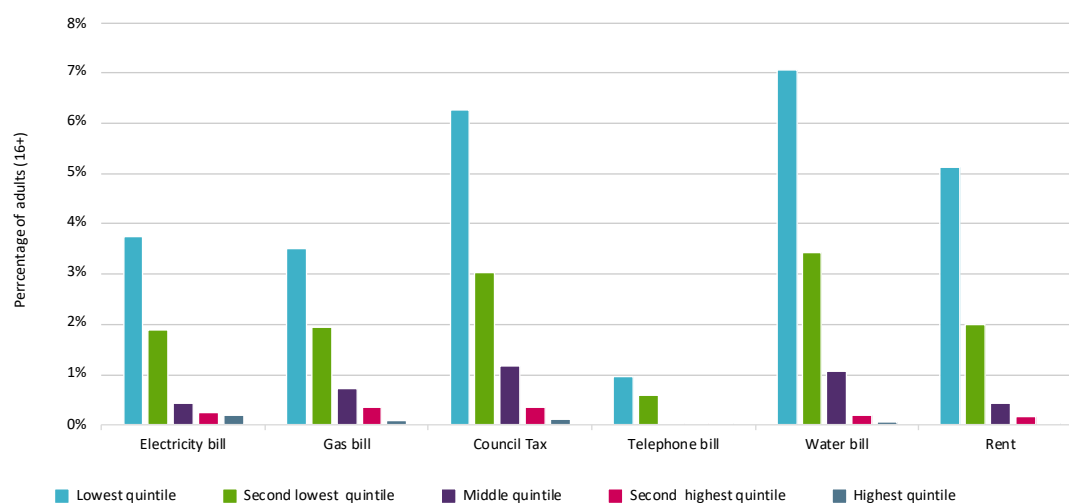


Source: Family Resources Survey (JRF analysis)

It is important to note that this measure of problem debt does not include debt on store cards, mail order payments and informal loans from friends or family. It does include: electricity, gas and other household fuel bills; Council Tax; phone bills; hire purchase; water rates; and rent or mortgage payments. It also now includes credit card debt or other loan repayments.

The most common types of debt for those with low incomes are water bills and Council Tax. These are followed by being behind with rent and other utility bills.

### Adults in a household behind with a bill: by household income quintile (2014–16)

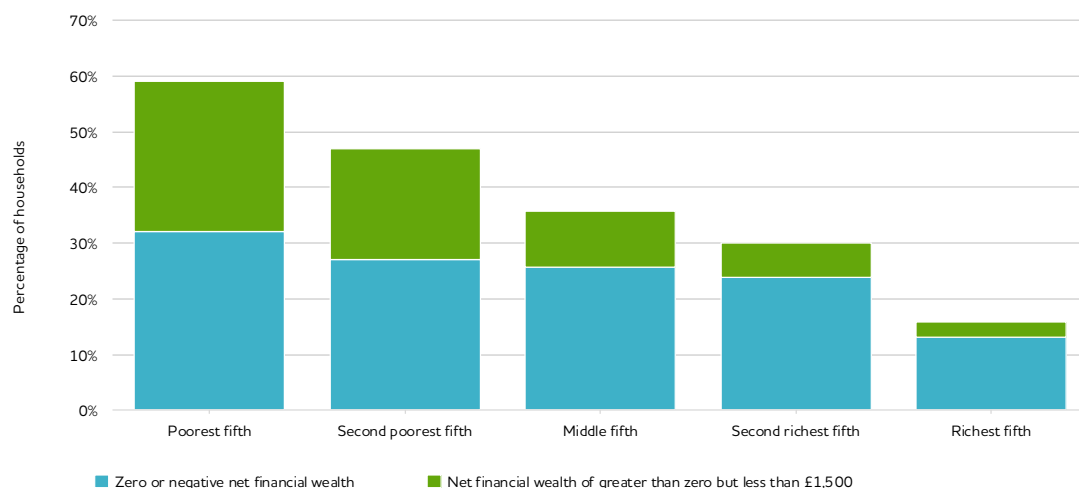


Source: Wealth and Assets Survey (JRF analysis)



The poorest households also find it much harder to save. In 2014–16, one in three of those in the poorest fifth of households had no savings at all, while a quarter had savings less than £1,500. This is in stark contrast to those in the better-off parts of the population: most households in all other quintiles apart from the poorest fifth of the population have savings of more than £1,500.

#### Households with total net financial wealth of less than £1,500 (2014–16)\*



Source: Wealth and Assets Survey (JRF analysis)

\*Net financial wealth is defined as gross financial wealth minus financial liabilities (savings minus debts excluding mortgage arrears).

## Conclusion

The daily experience of living in poverty is often extremely stressful and exacerbated for many by falling into debt and being unable to build up savings. People on low incomes experience worse physical and mental health than those who are better off. This culminates in stark differences in healthy life expectancy. The prolonged stress of the financial struggle people in poverty face through the costs of bills, housing, food, debts (payday loans, formal and informal loans) takes its toll resulting in poorer physical and mental health for those on the lowest incomes.

# Conclusion

As a country, we have shown that we can substantially reduce poverty: we can choose to redesign the systems that sweep people into poverty and keep them there. Pensioner and child poverty were successfully reduced through concerted action. By contrast, there has been very little attention focused on reducing poverty among working-age adults without children; poverty among this group was steady between 1994/5 and 2004/5 and then rose until 2011/12, before falling slightly to 2014/15. Twenty years ago, nearly a third of pensioners lived in poverty; that rate had more than halved by 2012/13. In recent years pensioner poverty has risen slightly again, but still remains lower than for families and children. Over a similar period, the number of children in poverty was reduced by around a sixth.

For pensioners, the key factors driving falls in poverty were rising home-ownership, protection for renters through Housing Benefit and the introduction of Pension Credit to top up the incomes of those without enough private pension income. For families with children, there was a significant rise in employment, with many more lone parents and second earners entering paid work. Alongside this, tax credits supported families whose low-paid or low-hours work did not provide enough income to meet the family's needs. Access to low-cost social rented homes and Housing Benefit helped to protect families on low incomes from the impacts of rising housing costs.

However, we are currently seeing much of this progress unravel. While employment has continued to rise, in-work poverty is rising even faster. Over the last five years the number of workers in poverty has risen by half a million, to four million. This rise has been driven almost entirely by a rise in working parents in poverty.

There are 500,000 more children in poverty than there were five years ago and the vast majority of this rise has taken place in working families. In addition, while the number of children in workless families has been falling steadily, the poverty rate for those still living in such families has risen steeply – more than seven in ten children in workless families now live in poverty.

While poverty has been rising among children in all types of families, this rise among lone parents is especially steep: nearly half of children in lone-parent families live in poverty, and poverty rates for children in these families have risen by around twice as much as those for children in couple families. Lone parents are also twice as likely to be in persistent poverty compared with any other group. This situation for lone parents is driven by a combination of the impact of high housing costs, their concentration in low-paid work and cuts to benefits and tax credits.

Despite the beneficial effects of rises in the minimum wage, low pay is widespread in the UK's labour market, and most low-paid workers do not move into better-paid work over time. The protection provided by the social security system has been weakened and the growing crisis in the UK's housing market is disproportionately affecting low-income families, whose housing costs have grown much faster than those of better-off families. The lack of social rented homes and high costs of buying a home have led to a very large rise in the number of low-income families renting privately: from 23% of those in the poorest fifth of the population in 2005/06 to 31% in 2016/17. Private rents remain very high, social rents have risen considerably and Housing Benefit meets less of these costs (as eligible rents have fallen below actual rents) for very large numbers of families in poverty.

Living in poverty affects all aspects of people's lives, including their mental and physical health, education and prospects and their ability to keep up with bills and save for unexpected expenses. One in five of those in the poorest fifth of the population experience depression or anxiety, six in ten have no savings and nearly a fifth report that they are in problem debt, most often falling behind with their rent, Council Tax or utility bills.

This report shows the urgency of taking action to halt the rise in poverty among workers and their families as well as among children in workless families. It also points towards the range of ways that we can choose to do this. Increasing access to better-paid work, enabling more families to live in low-cost rented homes and strengthening support through the social security system are all strategies that can reduce poverty. Our analysis demonstrates the importance of taking action now to halt the rise of child poverty.

# Notes

- 1 Three-year moving averages due to small sample sizes.
- 2 Ethnicity of the household is taken as the ethnicity of the head of the household.
- 3 2015-2016 is the latest data available for this analysis from Understanding Society. See: [www.understandingsociety.ac.uk](http://www.understandingsociety.ac.uk) (accessed 26 November 2018).
- 4 Institute for Fiscal Studies (IFS) projections report.
- 5 The number of people in employment in the UK is measured by the Labour Force Survey (LFS) and consists of people aged 16 and over who did one hour or more of paid work a week (as an employee or self-employed), those who had a job that they were temporarily away from, those on government-supported training and employment programmes, and those doing unpaid family work.
- 6 Analysis in this section excludes workers above state pension age.
- 7 [www.ifs.org.uk/tools\\_and\\_resources/fiscal\\_facts](http://www.ifs.org.uk/tools_and_resources/fiscal_facts) (accessed 26 November 2018).
- 8 [www.jrf.org.uk/blog/universal-credit-needs-reform-unlock-families-work-poverty](http://www.jrf.org.uk/blog/universal-credit-needs-reform-unlock-families-work-poverty) (accessed 26 November 2018).
- 9 [www.gov.uk/government/statistics/family-resources-survey-financial-year-201617](http://www.gov.uk/government/statistics/family-resources-survey-financial-year-201617) (accessed 26 November 2018).
- 10 Understanding Society uses the SF-12 multipurpose health survey with 12 questions selected from the SF-36 Health Survey. The questions are combined, scored, and weighted to create a scale that provide glimpses into mental and physical functioning and overall health-related quality of life. See: [www.researchgate.net/profile/John\\_Ware/publication/12203625\\_SF-36\\_Health\\_Survey\\_update/links/5b1d4482a6fdcca67b6905c1/SF-36-Health-Survey-update.pdf](http://www.researchgate.net/profile/John_Ware/publication/12203625_SF-36_Health_Survey_update/links/5b1d4482a6fdcca67b6905c1/SF-36-Health-Survey-update.pdf) (accessed 26 November 2018).
- 11 Our analysis is by area of deprivation rather than income. Comparisons between the countries of the UK should therefore be treated with caution since each has its own Index of Multiple Deprivation (based on relative deprivation within that country rather than compared across the UK).

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